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***Kazakhstan Background Study
for the UNDP Report «Regional
Cooperation for Human
Development and Security
in Central Asia»***

The study is aimed at identifying the role of Kazakhstan in the region, analyzing the impact of regional integration as well as its shortfalls for further development of the country and region as a whole, identifying key stakeholders in the country with respect to regional integration and cooperation.

Regional cooperation is necessary for Kazakhstan for developing non-oil sectors of economy. Cooperation in CA, trade development and maximizing transport and transit potential will contribute to the creation of proper conditions for appropriate economic development, increase living standards, poverty reduction and eradication of unemployment.

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Kazakhstan

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Dear Readers,

We offer for your attention PPRC research, which was prepared for **UNDP Report «Regional Cooperation for Human Development and Security in Central Asia»**. Our colleagues conducted the same researches in Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan. The team of international experts plans to publish the Regional Report based on our work in September 2005.

The principal purpose of UNDP Regional Report is to promote a dialogue in Central Asia and among Central Asians to convince policy makers and other stakeholders that regional cooperation and integration are essential for long-term economic growth, poverty reduction and social stability, and thus for human development and security. The report is also intended to provide a common platform for the international community, including and especially the UNDP and other UN Agencies, to advocate and support regional cooperation and integration in Central Asia. Ultimately, the hope is that the report will result in increased cooperation across borders in Central Asia so as to assure increased integration within the region and with the rest of the world, to enhance economic growth and social welfare, and to reduce the risks of political and social instability.

The scope and structure of the Kazakhstan Background Study was similar to that of the UNDP Regional Human Development Report. Our Study involved a combination of descriptive and analytical assessments. In study we described how Kazakhstan has been affected by the disintegration of the Soviet economic and social system, what is the current state of economic and social links with its neighbors, what are the attitudes of different stakeholders within the country to regional integration and cooperation, and what role the country has played in regional institutional bodies.

In line with the approach of the UNDP Regional Human Development Report, the Kazakhstan Background Study considered regional integration not only among the five Central Asian countries, but also with other principal neighbors (Afghanistan, China, Iran and Russia) and assess the role of international donors in supporting regional cooperation and integration.

Based on the research results recommendations on impact of cooperation and integration to human development and security in Kazakhstan were developed.

Preliminary results of country researches and drafts of Regional Report were discussed at experts' meeting on 4-6 November 2004 at UNDP Regional Conference in Bishkek (Kyrgyzstan). On 23 December 2004 UNDP and Public Policy Research Center held Roundtable in Almaty, where preliminary research outcomes were presented. Recommendations of participants were taken into consideration during the preparation of final report.

On 18-20 February 2005 UNDP arranged a workshop in Bratislava (Slovakia) on presentation of the first draft of Regional Report on Central Asia. Country team leaders,

authors and Heads of UNDP Regional Report as well foreign experts from Russia, Japan and China participated in the RT.

Research on Kazakhstan was conducted by the team of experts from the Public Policy Research Center:

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Editor-in-Chief



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List of abbreviations

ADB – Asian Development Bank
Agip KCO – Agip Kazakhstan North Caspian Operating Company N.V.
BTC – Baku-Tbilisi-Ceyhan
CEA – Common Economic Area
CNOC – Chinese National Oil Company
CPC – Caspian Pipeline Consortium
CIS – Commonwealth of Independent States
CA – Central Asia
CAC – Central Asian Cooperation
CAEC – Central Asian Economic Community
CEE – Countries of Central and Eastern Europe
CICMA – Conference on Interaction and Confidence building Measures in Asia
DFID – Department for International Development
EAEC – Eurasian Economic Community
EU – European Union
ECE – Economic Commission for Europe
EBRD – European Bank for Reconstruction and Development
ECO – Economic Cooperation Organization
FDI – foreign direct investments
GDP – gross domestic product
GNP – gross national product
GEF – Global Environmental Fund
HDI – Human Development Index
HPS – hydroelectric power station
IBD – Islamic Bank of Development
IMF – International Monetary Fund
ISAF – International Security Assistance Force
IRU – International Road Union
KOEPEM – Kazakhstan Operator of Electric Power and Energy Market
MIA of the RK – Ministry of Internal Affairs of the Republic of Kazakhstan

MFA of the RK – Ministry of Foreign Affairs of the RK
NATO – North Atlantic Treaty Organization
NB of the RK – National Bank of the Republic of Kazakhstan
NGO – non-governmental organization
JSC – Joint Stock Company
OSCE – Organization for Security and Co-operation in Europe
RSFSR – Russian Soviet Federative Socialist Republic
RK – Republic of Kazakhstan
SCO – Shanghai Cooperation Organization
SPECA – Special Program for the Economies of Central Asia
TAACIS – Technical Assistance for CIS
TNC – Transnational Corporation
TRASECA – Transport Corridor Europe – Caucasus – Central Asia
UNODCCP – United Nations Office for Drug Control and Crime Prevention
USAID – United States Agency for International Development
UN – United Nations (Organization)
UNDP – United Nations Development Program
USSR – Union of Soviet Socialist Republics
USA – United States of America
UN ESCATO – United Nations Economic and Social Commission for Asia and the Pacific region
UNAIDS – United Nations Program on AIDS
UN EEC – United Nations European Economic Commission
UNIDO – United Nations Industrial Development Organization
UNICEF – United Nations Children Emergency Fund
UNIFEM – United Nations Development Fund for Women
WB – World Bank
WMO – World Meteorological Organization
WHO – World Health Organization
WTO – World Trade Organization

Kazakhstan Background Study for the UNDP Report «Regional Cooperation for Human Development and Security in Central Asia

Introduction

In the face of globalization and strengthened competition Kazakhstan needs to aspire to regional partnership with the countries of Central Asia (CA) in order to be part of the world economy and to improve interaction with the major players in the region. This background study is devoted to the economic, social and political development of Kazakhstan, its key liaisons with neighboring countries and opportunities for regional cooperation.

The study is aimed at identifying the role of Kazakhstan in the region, analyzing the impact of regional integration as well as its shortfalls for further development of the country and region as a whole, identifying key stakeholders in the country with respect to regional integration and cooperation.

The study had used common methodology and includes a combination of descriptive evaluation, analysis and policy recommendations for decision-makers.

The report is based on the results of thorough study of experts and analytical material on economic cooperation in CA.

The **Introduction** sets out the goals and objectives and provides a brief summary of the main ideas of subsequent chapters.

Chapter 1 gives an evaluation of the country's context. It provides a brief review of Kazakhstan's economic capacity before 1990 and an evaluation of trends in the economy and human development in the nineties. It also looks at the impact of disintegration on economic and social life in the country and the effects of government reforms and economic liberalization on human development. The chapter also identifies key stakeholders, whose interests should be taken into account, when considering regional integration and cooperation. The human development trends are clearly defined in the given chapter.

Chapter 2 highlights the key links of Kazakhstan with neighboring countries. The section provides a detailed assessment of Kazakhstan's regional relations, analysis of benefits and losses from the intensified integration processes and strategies for cooperation from the country's and the major parties points of view. The chapter covers a wide range of questions: trade, transport, transit, water supply, energy resources, environment, migration, private investments, education, innovations, mass media, language policy, healthcare, natural disasters, drug trafficking, crime and the threat of terrorism.

Chapter 3 provides analysis of regional cooperation in view of Kazakhstan's national policy; the positive impact of cooperation to reduce corruption, resolve gender issues and develop communities.

Chapter 4 is devoted to international relations: cooperation with the neighboring countries (Afghanistan, China, Iran and Russia) and the role of the international donors in the region.

Chapter 5 reviews the practice and experience of Kazakhstan and CA countries in regional organizations, analyzes factors that hamper the integration process, ways of solving these problems and prospects for the development of regional associations in future.

Chapter 6 summarizes the results of the survey, provides recommendations to develop and support the integration processes, and underlines the most perspective areas of cooperation.

Chapter 1. Kazakhstan's Context

1.1. Brief political, economic and cultural survey of Kazakhstan until 1990

From the middle of the 18th century Kazakhstan was influenced by Russia, which resulted in joining at the end of the 19th century. On 20 August, 1920 Kazakhstan became a member of RSFSR as the Kyrgyz Autonomous Soviet Socialist Republic. It was renamed to the Kazakh Autonomous Soviet Socialist Republic in 1925 and then, on 5 December, 1936, reorganized into a union republic. Orenburg was the first capital of Kazakhstan. Then it moved to Kyzylorda and from 1929 to Alma-Ata. Following the dissolution of the USSR, Kazakhstan declared its independence in December 1991. Astana has been the capital of the republic since 1997.

Despite its small population (16.2 million in 1989), Kazakhstan, due to its economic potential, was among the leading republics in the former Soviet Union. Kazakhstan had the highest GDP after Russia and Ukraine. By 1990, the per capita national

income in Kazakhstan was 73 per cent of the average level in the USSR.

By 1990 Kazakhstan's population had impressive educational and professional standards. The main source of the country's economic potential was rich natural resources. The territory of Kazakhstan was a mine of various minerals: oil, gas, and iron ore, base metal ore with some rare metals, rare-earth and precious metals. In addition, Kazakhstan had enormous areas of agricultural land with different soil and climate.

These two factors, wealth of mineral resources and vast areas of agricultural land, predetermined the major directions of the development of Kazakhstan's economy: heavy industry and agriculture. As for heavy industry, the extractive sector with the primary treatment of raw production has seen the most significant rates of development. As for agriculture, priority was given to the production of crops, mainly wheat, and to livestock products.

The production infrastructure (including transport, power industry, construction sector and several enterprises of heavy industry, agriculture and defense industry) also showed rates of development. However, the specific share of the extractive sector in terms of industrial output was twice as high and 10 percent lower in manufacturing, than the Soviet Union average. All products made by these industries were supplied as raw materials to western regions of the former Soviet Union.

Kazakhstan economy, as an integral part of the Soviet one, was peripheral and raw-material-oriented. As a result, it was based on 'hang-the-expense' approach and was subsidized from Moscow. Annually allocated subsidies accounted for 20 per cent of national income.

Today Kazakhstan is a country with a huge area and low density of population. There are many ethnic groups in Kazakhstan with different cultures and traditions. According to the 1999 census, there are 130 nationalities that live in Kazakhstan. The country's major ethnic groups are Kazakh (54.4 per cent of the population) and Russian (30 per cent). Other ethnic groups account for 16.6 per cent.

During the Soviet period, Kazakhstan transformed from a feudal state with archaic agriculture into a large agrarian-industrial country rich in culture, education, science, literature and arts. Essentially, the history of the Soviet Kazakhstan was full of political, economic and social experiments, such as:

Despite its small population, Kazakhstan was among the leading republics in the former Soviet Union. Kazakhstan had the highest GDP after Russia and Ukraine

Collapse of the Soviet Union, changes in the economic structure gave a powerful spur to the disintegration of the economies of the former Soviet republics

- rigorous and mass repressions;
- a special campaign, conducted in 1929–1933 by the Communist Party’s leadership of Kazakhstan, on collectivization of agriculture, resulting in the death of over 3 million people from starvation;
- deportation to Kazakhstan people from the Caucasus and the Far East;
- developing virgin lands with mass migration of people from other republics of USSR;
- poor irrigation, resulting in ecological catastrophe in the Aral Sea basin;
- establishment of 20 military testing sites, including three nuclear proving grounds in Semipalatinsk, Azgir and Kapustin Yar, where the nuclear tests were conducted for 40 years. People living today in these areas experience the aftereffects of the tests conducted, and such effects will be apparent for many years to come.

The political life of the Kazakh Republic, like the general situation in the Soviet Union, run evenly and monotonously, with an indifference and silence of the population that was perceived by the leaders of the Communist Party of the Soviet Union as complete assent of the population with the policy pursued. During the period of “perestroika”, declared by Mikhail Gorbachyov in 1985, mass protests of the Kazakh youth in December 1986 against the new leadership of the Communist Party of Kazakhstan as well as the events in Baku, Tbilisi and Vilnius proved deep crisis of the Soviet political system.

All this showed that the USSR had a crisis of belief for a “better future” of communism, a crisis of communist ideology, spiritual values, the Soviet culture and ideology as its main component. It became more evident at the end of the eighties as the Soviet values ceased to be a factor of development; they needed to be exchanged for values, which allowed the development of democracy, economic liberalism and market values.

1.2. Human and economic trends of Kazakhstan in 1990s

Changes of the economic structure. Such factors as the dissolution of the Soviet Union, the initiation of market-oriented economic reforms starting with the liberalization of prices and foreign trade, the introduction of domestic currency, and hyperinflation gave a powerful spur to the disintegration of the economies of the former

Soviet republics and brought about a rapid decline in production (for basic data on Kazakhstan for 1994-2003 see Appendixes, Table 1).

Mutual trade was unprofitable under such conditions because of defaults in payments, reduction in output and non-competitiveness of goods. More and more former Soviet republics sought access to the markets of non-CIS countries, where they had possibility to sell goods for hard currency and buy cheap imported goods. Raw materials from the CIS countries were the only products of high demand on the foreign markets.

The collapse of trade, economic and transport relations, a crash of the single Rouble zone, the loss of markets and a break-up of the water and energy system led Kazakhstan, as well as the other post-Soviet republics, into a deep crisis, accompanied by significant changes in the economic structure.

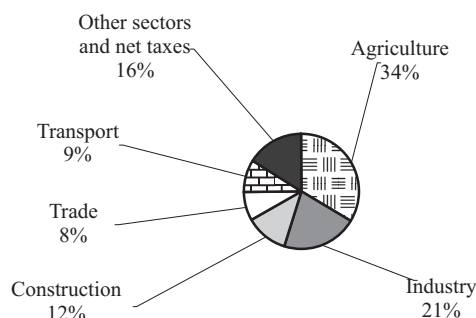
The peak setback in Kazakhstan's production was in 1995 with GDP reduced by 39.6 per cent¹ comparing to 1990. In 1995 the government and the National Bank of Kazakhstan managed to implement a tough anti-inflation monetary and budgetary policy. The result was positive: in 1996 inflation reduced to 28 per cent and GDP increased by 0.5 per cent.

In 1995–1999 the government of Kazakhstan took action to provide macroeconomic and industrial stability, resulting in a significant reduction of inflation, stabilization of the Tenge/USD exchange rate, pursuing a policy of cut-backs in social security benefits, financing of the development of industries and so on.

The peak setback in Kazakhstan's production was in 1995 with GDP reduced by 39.6 per cent comparing to 1990

Figure 1. GDP structure in 1990 and 2003

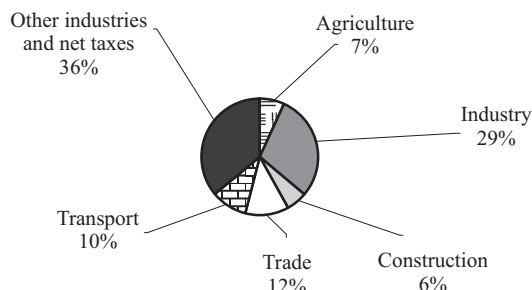
GDP structure in 1990



...oil and gas sector made only 0.5 per cent of GDP in 1990 and almost 24 per cent in 2003

¹ Here and further, in Section 1.2, all figures are cited according of the Agency of Statistics of the Republic of Kazakhstan data

GDP structure in 2003



Source: the Agency of Statistics of the Republic of Kazakhstan

Agriculture and industry were the major sectors of the economy in 1990. They amounted to 34 per cent and 21 per cent of GDP, respectively (see Figure 1). In 2003 the share of industry in GDP increased to 29 per cent and agriculture, on the contrary, reduced by five times to 7 per cent.

A reduction in physical volumes of production and a three-fold decrease in agriculture, as compared with GDP deflator, led to the lower volumes of gross value added in agriculture than in other sectors of the economy. This adversely affected the economic and social development of agricultural regions, living standards and the incidence of poverty.

Since 2000 the economy has demonstrated stable growth, resulting from high prices for mineral resources on the world markets, the export of which has reached 80 per cent. Oil and gas continue to be the main exports. As a result, Kazakhstan's economy belongs to the resource-oriented one. Therefore, oil and gas sector made only 0.5 per cent of GDP in 1990 and almost 24 per cent in 2003.

The oil and gas sector will determine the development of Kazakhstan's economy and policy over the next 30 years. Located in the Kazakh part of the Caspian Sea, Kashagan is the country's largest oil and gas deposit. The proved reserves of oil are estimated at 1,648 million tons, forecasted reserves at 8,336 million tons. Many countries, especially Russia and the USA, are focused on the Caspian region where the geopolitical and geo-economic interests of the countries compete. Kazakhstan intends to develop Kashagan in partnership with both the largest international oil companies and domestic ones.

AGIP KCO, composed of oil and gas companies from several countries, is prospecting oil in Kashagan. Russian and Kazakhstan companies have already reached an agreement about joint prospecting and operation of deposits in Kurmangazy, Tsentralnoye, and Khvalynskoye oil fields.

Exporting oil via western pipelines (CPC, BTC and, possibly, to Iran) and eastward (to China with a way out to the Pacific Ocean) meets the strategic interests of Kazakhstan. Kazakhstan will strive to produce oil at a moderate tempo, taking into account the necessity to maintain stability on the world oil markets.

Village degradation. Reforms struck the hardest blow to agriculture, especially the livestock farming sector, affecting mainly ethnic Kazakhs.

Coercive privatization of state-owned property in rural areas, as well as “the farmer-oriented” nature of agriculture were the main reasons for a decrease in the output of agricultural products crops, and the number of livestock and poultry. Rural people were not ready for such events neither morally, nor financially.

The fact that a village is a socio-territorial unit, with cherished traditions, customs, spiritual life of all ethnic groups of the country, and primarily Kazakhs, was not taken into consideration.

Lack of domestically produced foodstuffs and their non-competitiveness, compared to foreign ones, created inflation, which in turn, caused a reduction in payment demands of the population. Decrease in meat and milk consumption by 40 per cent and fish consumption by 65 per cent and an increase in bakery foods consumption by 30 per cent, showed the reduction in animal protein and increase in cheap carbohydrates production.

The cease of government subsidies led to the break-up of the transport infrastructure, social institutions and links at the rural level. The number of people engaged in the agricultural sector reduced sharply. The age structure of the population changed the worst, mortality increased and the birth rate fell. Some rural districts became environmental disaster areas. The income of rural populations reduced substantially. All this resulted in the dramatic worsening of living conditions of rural population and in an increase of poverty. In 2001 about 36 per cent of rural population lived beyond poverty line (with the income lower than a minimum wage). About 80 per cent of them earned less than the minimum wage in 1998.

About 36 per cent of rural population lived beyond poverty line in 2001

Water-power system. With the creation of new independent states, radical changes took place in the single water-power system. This especially was related to CA, where Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan were connected to a single water-power system. If previously regulation of water and energy resources was centralized under a single state, now this system shifted to interstate regulation.

The main problem arose with water supply for agriculture and supply of drinking water from the Syrdaria River for the population of South Kazakhstan and Kyzylorda oblasts. Part of the river flow comes from Toktogul reservoir (Kyrgyzstan) only in summer time for the irrigation of agricultural lands in Uzbekistan's Ferghana valley and the cotton and rice fields of South Kazakhstan and Kyzylorda oblasts.

This is unprofitable for Kyrgyzstan and impossible without solving a number of accompanying problems with the help of the neighboring states. Thus, the issues of coordinated management of the reservoirs constructed along the Syrdaria River and its water drains as well as establishing limits for water use are still the subjects of heated annual debates among the three republics.

Until the issues of distribution and use of water from the Syrdaria River are solved on the market-oriented base, these disputes and mutual reproaches will continue. Kyrgyzstan bears considerable annual expenses to maintain properly the complex hydraulic, irrigation and energy structures to tackle the problem of the irrigation of the neighboring countries in summer time.

In the nineties Kazakhstan had problems with gas transportation from Uzbekistan and Turkmenistan and of electric power and oil products from Russia because of the reduction in transportation volume and an increase in price. The country had no alternative way to transport the vitally important resources, except via the inter-republican transport and energy infrastructure inherited by the new independent states from the former SU. Using their monopolist position, the leaders of some regional states tried to exert political pressure upon their neighbors. Default in payments and heavy mutual public debts only complicated the situation.

Such pressure of the states to each other leads to a situation, where each state solves problems most ineffectively. While Uzbekistan grows low-quality wheat, Kazakhstan operates unpromising gas fields in the south. These problems could be solved by pooling the

interests of the concerned states and taking advantage of market mechanisms and mutually beneficial approaches.

Human development trends. Human potential reduced in 1991-2004 (Tables 2 and 3 in Appendixes characterize human development trends). According to data from the UNDP World Human Development Report, in 2002 Kazakhstan was 78th among 177 countries of the world. The Human development index (HDI) was 0.766, 24 points lower than in 1990 (see Figure 2).

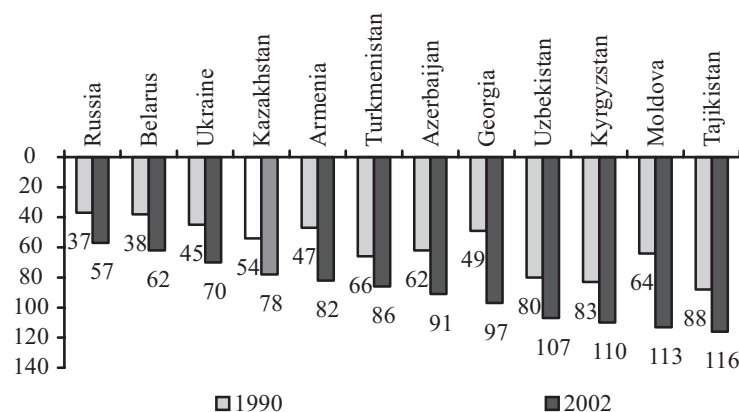
The most significant reduction of Kazakhstan's HDI since 1990 caused a fall of the country rating in 1995 by 39 points among other countries of the world. The main factor (52 per cent) of HDI reduction was an unprecedented decrease in life expectancy by 4.6 years (from 68.1 to 63.5 years). The economic recession, which caused a reduction in GDP by 39.6 per cent, was the second factor (37 per cent). The third factor (11 per cent) was the decrease in access to education for people between the age of 5 and 24. Their number reduced from 80 to 73 per cent.

The situation with human development gradually improved between 1996 and 2003, resulting in an increase of HDI by 0.046 since 1995. The rating of Kazakhstan on the HDI rose by 15 points between 1995 and 2002, but was still 24 points lower than in 1990.

Economic growth played a major role in raising the country's HDI. Another factor was the increase in life expectancy by 2.3 years (to 65.8). The third factor was a growth of joint education coverage indicator.

The most significant reduction of Kazakhstan's HDI since 1990 caused a fall of the country rating in 1995 by 39 points among other countries of the world

Figure 2. HDI in CIS countries in 1990-2002



The rating of Kazakhstan on the HDI among other world countries in 2002 was still 24 points lower than in 1990

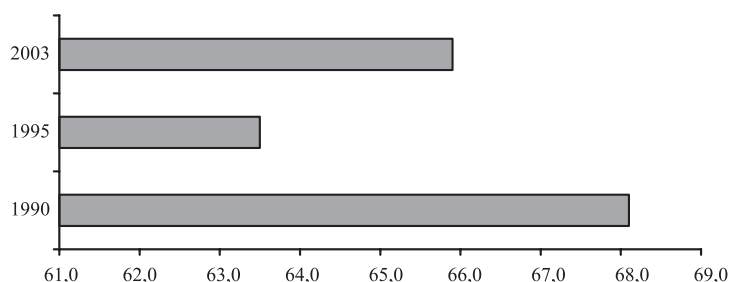
Source: UNDP World Human Development Reports

As to the index of comprehensive “access to education”, Kazakhstan exceeded the level of 1990. It is also expected that Kazakhstan will exceed the GDP index in 2004. But situation with life expectancy at birth is still worse for 2.3 years. All these factors mean that Kazakhstan is “catching up”.

Social problems and demography. The population of Kazakhstan reduced in 1999 by 1.3 million compared to 1989, due to increased migration and reduction in the birth rate that led to depopulation in some of its regions. Dynamics of population for 1993-2003 is given in Appendixes (see Table 4). 266,100 people immigrated into, and 656,500 people (4% of the population) migrated from Kazakhstan between 1999 and 2003.

Figure 3. Estimated life expectancy at birth (years)

The population of Kazakhstan reduced in 1999 by 1.3 million compared to 1989



Source: the Agency of Statistics of the Republic of Kazakhstan

The increase in depopulation along with the reduction in the number of people of working age can deform the population structure. It will alter the balance of the workforce and adversely affect the country’s sustainable human development. As a result, a demographic burden will be put upon the employable population. Public institutions will face the problem of allocating more and more public funds for paying dependency allowances, which will create preconditions for public welfare reduction.

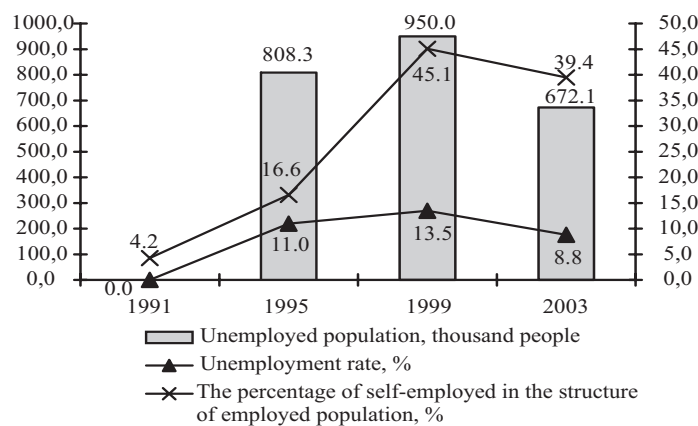
Employment. Radical political and socio-economic reforms have changed the social and labor environment of the country. The formation of new industrial relations took place in a situation of economic crisis. Kazakhstan did not manage to avoid a drastic decrease in aggregate demand, caused by price liberalization and reduction in subsidies to enterprises, which adversely affected the demand for labor.

A breakneck fall in production in all sectors of the economy resulted in large-scale unemployment. This fact was not officially registered until 1994.

Although, in pre-reform time, employment in the country was registered as “full”, the number of unemployed reached 1 million people and the unemployment rate 13.5 per cent in 1999. Since 2000, unemployment showed a downward trend reaching 8.8 per cent in 2003 due to the production growth and creation of new work places.

Unemployment was not officially registered until 1994

Figure 4. The unemployment rate



...the number of unemployed reached 1 million people and the unemployment rate 13.5 per cent in 1999

Source: the Agency of Statistics of the Republic of Kazakhstan

There were 7 million people employed in sectors of the economy in 2003. About 40 per cent (2.8 million people) of them were self-employed people². Two thirds of them, or 1.6 million people, were engaged in agricultural jobs, not requiring special education or professional skills. On account of their irregular jobs they, periodically, join the army of unemployed that seek a fixed source of income. The long-term unemployment rate is still high (5.3 per cent).

Poverty and social stratification. Kazakhstan faced the problem of poverty and stratification of society in the nineties. In 1998 39 per cent of the population earned less than the living

In 1998, 39 per cent of the population earned less than the living wage

² Self-employment - employment at which the rate of commission directly depends on the income received from manufacture (realization) of the goods and services. Thus own consumption is considered as a part of the income.

wage. In the succeeding years the number of people living in poverty gradually reduced and reached 19.8 per cent in 2003. Poverty indexes in Kazakhstan regions in 1998-2003 are given in Appendixes (Table 5).

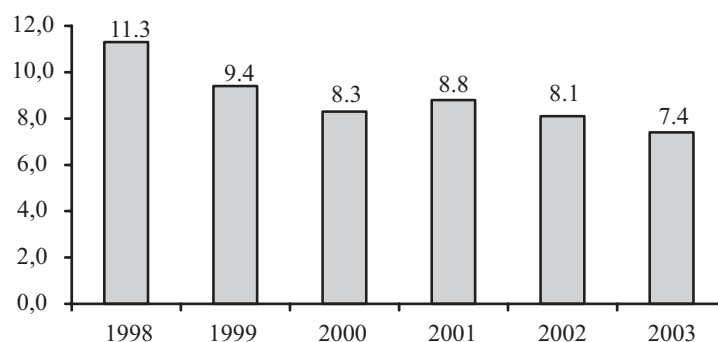
The ratio of the income of the top 10 per cent of the rich and the 10 per cent of the poor reached 11.3 times in 1998. It reduced to 7.4 per cent in 2003. The Gini coefficient changed from 0.347 in 1998 to 0.300 in 2003, implying that the social stratification of society is reducing.

Poverty rate is higher in rural areas in all regions of the country. The reason is the limited earning possibilities and the low productivity of the agricultural sector. In 2003 the poverty rate in rural areas was 59.9 per cent in Mangistau oblast, 44.0 per cent in Atyrau oblast and 42.2 per cent in Kyzylorda oblast.

The biggest polarity between city and rural areas is in Mangistau oblast, where three out of five men living in the countryside and only one out of five living in cities are poor.

Poverty rate is higher in rural areas. In 2003 the poverty rate in rural areas was 59.9 per cent in Mangistau oblast and 44.0 per cent in Atyrau oblast

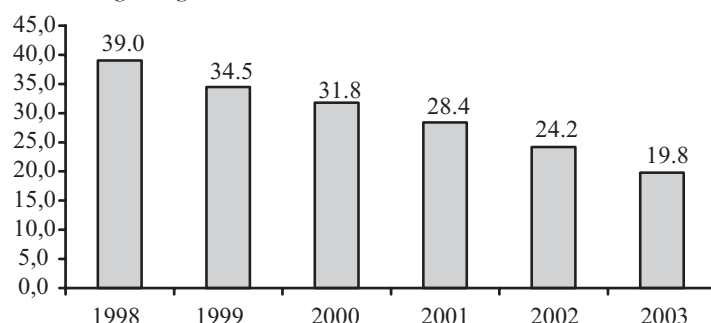
Figure 5. Ratio of income of 10 per cent of the rich and 10 per cent of the poor (x-fold)



Source: the Agency of Statistics of the Republic of Kazakhstan

According to the Law of Kazakhstan *On the Minimum Living Wage*, passed at the end of 1999, the criteria for the provision of social aid to the population is a poverty line determined as a percentage ratio to the living wage. Currently the government assists only households with a per capita income not exceeding 40 per cent of the living wage, whereas 70 per cent of the living wage is the cost of food. This means that social support does not cover even the nutritional needs of the poor population.

Figure 6. The percentage of population with income below the living wage, %



Source: the Agency of Statistics of the Republic of Kazakhstan

The government assists only households with a per capita income not exceeding 40 per cent of the living wage

Crime. A radical transformation of the economy and socio-political life of the country was accompanied by an aggravated situation with law and order. A shadow economy, corruption and bribery, which became the most profitable ways of survival, increased enormously. Today they became widespread and unconcealed.

Economic crimes such as tax evasion, money-laundering and legalization of shadow income, illicit outflow of capital, illegal import of contraband, trading faulty products, export and import operations in offshore zones, bogus firms, sham transactions, bankruptcy of enterprises, distribution of government contractual work for bribes etc have become widespread.

Corruption such as bribery, close relations between authorities and criminal structures, abuse of ministerial duties and other unlawful acts by officials have led to a grave situation. The aggravation of the general socio-economic situation in the country resulted in the crime growth. The rate of crime increased by 20 per cent to 10.8 crimes per 100,000 people in 1995, comparing to 1990. This indicator is stabilizing and has slightly reduced.

The rate of the shadow economy in Kazakhstan is 23-24 per cent of GDP,³ according to official statistics. Experts suggest it may be as high as 28-32 per cent of GDP.⁴

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³ Press Conference of the Kazakhstan Agency for Combating Economic Crimes and Corruption, speech of the chief of Organizational and Controlling Department N. Baizhanov. Kazinform – January 29, 2004.

⁴ “Assessment of the shadow sector of the economy and its influence on economic situation in the country”. Report of the International Scientific and Educational Center of Economy headed by A. Yesentugelov // Novoye Pokoleniye. – January 23, 2004.

*The mutual
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Environmental problems. Environmental conditions in Kazakhstan deteriorated long ago. The conditions are poor on the territories adjacent to the Aral Sea, and critical in the Caspian and adjacent areas, due to oil prospecting and development of gas fields on the Caspian Shelf. It has also worsened in regions rich in forests and fauna owing to illegal mass deforestation and an increase in clandestine markets and production. This is especially evident in the East-Kazakhstan and Pavlodar oblasts. The situation has also deteriorated in the Irtysh River and in the Balkhash Lake basin.

Fires have caused severe damage to the forests, which cover over 4 per cent of the country's territory. The area affected by fires reached 259,000 hectares in the driest years in 1997 – 1999. It is estimated that a quarter of relic pine forests in East, West and North Kazakhstan perished during these years.

The problem of high air pollution in the cities of Kazakhstan is acute nowadays. Following the economic recession, per capita atmospheric emissions of contaminants from stationary sources showed a downward trend (reduced by 41 per cent) between 1990 and 1998. With resumed economic growth, emissions increased by one quarter by the year 2003, resulting in increased diseases and lowering the increase in life expectancy.

It is necessary to amend existing environmental legislation to revise standards and penalties and to tighten controls.

Cooperation in the CA region. Failures and difficulties distinguished cooperation in CA in the 1990s. The first factor was a competition between Turkmenistan and Uzbekistan with regard to the distribution of gas in the region: the attempt of the latter to overtake Turkmenistan as the principal gas distributor using the dependence of the neighboring countries upon Turkmenistan to exert pressure. The second factor was increased mutual debts between the countries of the region for the distribution of gas, transportation of cargo by Kazakhstani railways and the transportation of gas by pipelines via Kazakhstan.

Some issues are still being resolved in a tense atmosphere. However, with the development of the economy in all countries of the region the prospect of business cooperation and efficient use of Kazakhstan's transit power and transport infrastructure remains hopeful.

At present, the mutual overflow of investments in the region is almost non-existent. The prospect of such cooperation of CA countries seems not clear. Turkmenistan does not take part in this process. The Tajik economy is still weak and the political situation in the country does not stimulate the inflow of investments into it. The Uzbek economy does not experience investments from other countries, due to its closed nature and a high level of state control of the market, including the currency one. Kazakhstan and Kyrgyzstan can develop the investment process in the region but only Kazakhstan has the capacity to invest capital, primarily banking one. Kazakhstan's investments are directed to Kyrgyz financial sector: Kazkommertsbank, Halyk Bank, ATF Bank and Temir Bank have shares in Kyrgyz banks (not less than 30 per cent).

...only Kazakhstan has the capacity to invest capital in development of the region investment process

There is little prospect of joint development of power resources mainly for the above-mentioned reasons. The only possible project for the present time is participation of Kazakhstan in the development of Kyrgyzstan's energy sector to solve the problem of water supply from the Syrdaria River to the southern region of Kazakhstan. Development of regional integration and cooperation by both countries will stimulate each country's production where it has competitive advantages. Developing trade and transport cooperation by using the whole transit potential, making joint investments, developing energy resources, and furthering the development of small business, Kazakhstan and other CA countries can greatly improve their socio-economic situation and the human development index.

1.3. Key stakeholders group

Let's define who in Kazakhstan is interested in regional cooperation.

President. The President of Kazakhstan expresses particular interest in establishing various regional associations of political and economic cooperation.

Such a policy is underlined by the following goals:

- Political goals: ensuring political stability in the region,
- Economic goals: expansion of Kazakhstan's domestic market capacity (which is not large) through the creation of a common economic area.

In this regard not all heads of state in the region demonstrate similar activity and interest. This is especially true for the President of Turkmenistan and, to a lesser extent, for the President of Uzbekistan. The economies of all countries in the region, except for Kyrgyzstan and Tajikistan, have similar structures; all countries export analogous raw materials and cannot supplement each other.

Another reason is a personal interest of the heads of state, including unconcealed rivalry between Nazarbayev, Karimov and Niyazov in their preferred models of political and economic systems and a latent contest between Karimov and Nazarbayev for the leadership in the region.

The interdependence of energy systems, transport and water infrastructure of Kazakhstan, Kyrgyzstan and Uzbekistan is a binding factor for the economies of those countries. There are yet no signs of common economic and political interests in the region – a basis for harmonization of existing standards and regulations in the field of economy and politics. The current boundary disputes accompanied from time to time by boundary conflicts, a problem of water distribution and interstate trade of gas and electric power aggravate relations between regional leaders. We should note the fact that the boundary disputes between Kazakhstan and Uzbekistan have already been settled. Kazakhstan has no outstanding boundary claims in the region.

Local authorities. Despite the fact that non-CIS countries and Russia prevail in the export structure of Kazakhstan, oblast authorities (akimats) also have particular concerns in developing trade relations within CA. One example is the construction of the road between Almaty and Bishkek. Joint projects in the field of transport and power industry will play a positive role in this matter. Kazakhstan imports agricultural products, foodstuffs and consumer goods from the countries in the region. It also exports grain, alcoholic beverages, oils, light industrial products, chemical products etc. Cooperation would be beneficial for commodity exchange between the countries and for the improvement of living standards.

Business. Regional integration processes are advantageous for business, especially for a small one, which has a limited domestic market. Such associations would further the expansion of the free interchange of commodities, services, labor and

capital, that meets their interests. As a result, foreign commodity turnover, foreign direct investments (FDI), new jobs and per capita income will increase. Thus, Kazakhstan's private and small business is actively cooperating with the Eurasian Economic Community (EAEC). Regional integration of the economic community would be more efficient, if the manufacturing sector in Central Asia develop not parallel, but complementary economies.

The markets of countries in the region would be of great interest for highly-developed business structures of Kazakhstan, such as the banking system and telecommunication systems, which are actively entering the Russian and Kyrgyz market. The markets of Kyrgyzstan and Tajikistan are easily accessible and the presence of Kazakhstani banking and telecommunication sectors in these countries will be a reality soon. However, the larger Uzbek market, especially the currency, credit and financial ones, with a high level of state control and a large share of public ownership, could hamper the entrance of the above-mentioned sectors of Kazakhstani economy for a long time.

The situation is different with transnational corporations (TNC) operating in Kazakhstan. They dominate in the high-benefit raw sector: oil and gas, mining, metallurgy and the chemical industry. By developing relations with non-CIS countries (often through offshore zones), they are not concerned with participating in regional cooperation, although there are a number of large-scale projects on transboundary roads, railway transport, power industry, joint water management, mining and metallurgy, which could be implemented with the participation of TNCs. The other obstacle is the absence of a common legal foundation for TNCs.

Civil society. Numerous non-governmental organizations (NGOs) show an interest in close cooperation with the civil societies of other countries in the region. Mentality and ideology of seventy years' Soviet community remains the norm for people. Civil society of Kazakhstan perceives it as a chance to influence the public and political development of neighboring countries in order to maintain stability in the region. NGOs jointly solve many of those common problems in the region, including environmental ones. But, the current obstacle to active cooperation of civil societies in the region is the lack of development of civil society institutions and political regimes in Uzbekistan and Turkmenistan.

Regional cooperation would be more efficient, if the manufacturing sector of the countries developed...

NGOs jointly solve many of those common problems in the region, including environmental ones

Regional integration lies in the interest of **ethnic groups** in each of the countries. There are the prerequisites for free communication and participation in joint commercial activities with the citizens of the republic as many Kazakhs live in Uzbekistan and Kyrgyzstan, as well as Uzbeks and Kyrgyz living in Kazakhstan. This is especially convenient and advantageous for people living near the borders, for example in Zhambyl, South Kazakhstan or Kyzylorda oblasts.

For people living near the borders, especially in such environmentally sensitive areas as the Aral Sea, it is very important to take action to improve the environmental situation in the region, which faces a severe crisis. The current forms of cooperation to solve the Aral Sea problem have not achieved the expected result. With regional economic integration the CA countries could tackle this problem by combining their efforts and resources, coordinating activities and reporting to the UN and other international organizations on the efficient use of funds allocated to manage this global problem. According to some assessments, the economic rehabilitation of the Aral Sea region will cost USD 50 billion.

1.4. Overview of future economic and human development challenges

The steady increase in world prices for oil led to the problem of strengthening exchange rate for the tenge

Resource curse. Kazakhstan's economy is largely dependent on the export of energy resources, especially oil.

As a result of the steady increase in world prices for oil since 1999, Kazakhstan faced a problem of "excessive dollars". This led to an increased exchange rate for the tenge, generating "Dutch disease". Despite the creation of the National Fund in 2001 to prevent "Dutch disease" (during three years of its operation it accumulated USD 3.9 billion), in 2003 the real exchange rate strengthened by 13 per cent. It also increased in 2004, resulting in price growth for products in all sectors of the economy. As a result, imports rose by 57 per cent in the first nine months of 2004, surpassing exports by 12 per cent (10 per cent the last year). Development of the manufacturing sector oriented to the domestic market lags behind the export-oriented mining sector by more than 5 per cent.

...lop-sided development of the economy aggravates the situation of economic security and poses a threat to the sustainable development

Such lop-sided development of the economy aggravates the situation of economic security and poses a threat to the sustainable economic development of the country. Kazakhstan

has to ensure its economic safety even in a situation of fluctuating world prices and political instability in some oil regions to improve standards of environmental protection and ecosystems in line with world standards.

Ecosystems. The exploitation of natural resources causes a critical situation for the environment. Today the level of pollution of the Caspian Sea exceeds the fixed limit by eleven times. The production of hydrocarbon reserves on the Caspian shelf is accompanied by increasing contamination and probability of irreversible degradation of the Caspian bio-systems.

Today the level of pollution of the Caspian Sea exceeds the fixed limit by eleven times

The development of Kazakhstan's largest gas condensate field, *Karachaganak*, poses another severe threat to the ecosystems of the region, especially in view of the fact that, at the beginning of the eighties, a series of nuclear explosions were set off to create an underground tank to store the condensate. This creates a danger of radioactive contamination of the ground.

The desiccation of the Aral Sea, which could result in its disappearance, the aftermath of nuclear explosions, the intense operations in the uranium fields and large quantities of radioactive waste in Kazakhstan continues to pose a grave danger to the natural environment.

Human capital quality. The country's wealth is not solely due to rich natural resources. The major resource of any state is its people. It is necessary to provide an outlet for creative abilities and human talents. Thus, the response to such challenges as transition of the world community to a post-industrial economic development, strengthened international competition and world integration are among the main methods for the human resources and accelerated accumulation of human capital in Kazakhstan.

The country has to accelerate accumulation of new knowledge and new qualities of human capital

Greater access to education, extended knowledge and health programs are the key factors to economic success in a situation of transition to post-industrial innovative development, knowledge and information. The quantity and quality of human resources is the main factor for sustainable socio-economic development of the country. Kazakhstan had a high level of education before the reform: there was 10 year mandatory school education, numerous higher education institutions, a network of academic and research institutes, engineering centers, vocational schools, a great number of scientists, engineers and other specialists engaged in the field of

mathematics, physics, chemistry, microbiology, geology and metallurgy.

The acuteness of the problem appears not only in the scope and quality of socio-economic issues resolved in the country, but also in the fact that during the transitional period standards in the whole spectrum of educational, scientific and health institutions in Kazakhstan deteriorated. The high intellectual potential and high level of education, training, experience and skills of Kazakhstan people during the Soviet time has, to a great extent, been lost both in terms of quality and quantity. Today's education and healthcare systems no longer meet the needs of society.

Only improvements in human development will define the future status of the nation...

The country has to tackle two major problems: the rehabilitation of lost potential and the accelerated accumulation of new knowledge and new qualities of human capital. It is necessary to act rapidly to resolve this issue. Otherwise Kazakhstan will not be able to compete with developed countries in the production of high-tech and science products to solve the problem of competitiveness of the Kazakhstan economy, based on human resource development. Only improvements in human development will define the future status of the nation, success or failure of the country in the rapidly developing and highly competitive world.

Reform of education system, science and healthcare requires lots of resources. However, investment in human development, human capital reproduction, as world experience shows, is more effective than using any other industrial factor.

Lots of other problems existing in the country prevent sustainable development of economy.

Shadow economy. Kazakhstan's economy is distinguished by a high level of shadow economy. This is mainly explained by the tax burden and high level of corruption.

The poor business and investment climate in the non-resources sector, weak activity of the stock market don't let the capital outflow to be reduced

The main instrument to reduce the rate of the shadow economy is the policy of the state. The more liberal, consistent and determined policy is, the more evident will be the results, i.e. decrease of shadow economy volume.

After the amnesty of capital⁵ in 2001, liberalization of currency inflow and outflow, as well as capital reduced sharply. In the

⁵The so-called action to legalize capital

late nineties the outflow of capital was estimated by experts at USD 2-2.5 billion per annum. Currently it ranges between USD 0.7 and 1 billion owing to the poor business and investment climate in the non-resources sector, weak activity of the stock market and other reasons.

Workforce quality. Kazakhstan is a country with a low population density. Nevertheless, in the next 7-10 years the labor market of Kazakhstan will not suffer from a shortage of human resources. This is due to the increased birth rate and the increased number of people of working age, a stable rate of mortality, a steady growth in the number of immigrants and a reduction in the number of migrants. Unless drastic measures are taken to raise the level of labor skills through advanced training, skills conversion, the creation of an efficient system of vocational training for adolescents, organization and increased motivation for labor, the crucial questions will be the quality of the workforce and the lack of skilled manpower, especially in the industrial and agricultural sectors. Attempts to reanimate professional technical colleges of the Soviet period do not solve the problem.

Another issue is illegal immigration from other countries to Kazakhstan. Immigrants are generally non-skilled common laborers who pay no taxes and are often involved in some kind of criminal activity. Failing to solve this problem could cause the destabilization of the political situation in the country.

Fortunately international terrorism, drug trafficking and contraband has not grown significantly in Kazakhstan and do not pose a severe threat to the society. Drug trafficking, contraband and the arms trade are mainly transited via the country. But it does not imply that there is no threat of international terrorism, contraband and drug trafficking in Kazakhstan. The evidence is the appearance in South Kazakhstan adherents of the Islamic fundamentalism and Vakhabbism.⁶

The location of Kazakhstan at the intersection of transport corridors and openness of the policy could cause a number of problems with trans-boundary migration, an increased number of illegal migrants and contraband, penetration of international terrorists.

⁶ See further for more details

Conclusions

Kazakhstan underwent series of radical reforms from the liberalization of prices to privatization and formation of the multi-structural economy to establishing institutions and infrastructure of the market economy.

Having very close relations with post-Soviet countries, Kazakhstan endured a deep and lingering recession, which was accompanied by considerable changes in the structure of the economy. The percentage of agricultural output in GDP reduced from 34 per cent to 7 per cent. The increased industrial output was due to the development of the oil and gas sector. To ensure economic sustainability and development, it is necessary to carry out structural reforms in the economy aimed at developing other sectors, apart from oil and gas.

A considerable cutback in the output of agricultural products and a three fold drop in prices resulted in the five fold reduction in output of gross value added in the agricultural sector, a significant reduction in the living standards and an increased poverty rate in rural areas. Appropriate measures are necessary to develop the country's agricultural sector and industrial and social infrastructure at the rural level.

Between 1991 and 2003 the development of human potential slowed down. This is still a problem: the rating of Kazakhstan in the Human Development Index (HDI) among 177 countries of the world has fallen by 24 points since 1990.

Kazakhstan should aim to increase all constituents of the Human Development factor, including economic growth, total access to compulsory education and life expectancy at birth.

During the transitional period unemployment increased to a top rate of 14 per cent. The percentage of self-employed increased from about 4 per cent in 1990 to almost 40 per cent in 2003. The majority of self-employed are independent workers engaged in the agricultural sector with low income and unstable sources of income.

As a result of the transitional period, the category of "people with low income", to which the government granted pecuniary aid, became "poverty-struck" with income insufficient even to cover food expenses. The government can only provide financial aid to the neediest people, whose income is less than 40 per

cent of the living wage, whereas the value of the food basket constitutes 70 per cent of it.

In order to reduce poverty, it is necessary to ensure the development of business in each area and to increase the mobility of the workforce.

The population of Kazakhstan reduced by 1.3 million from 1989 to 1999 owing to increased migration and a reduced birth rate. That led to depopulation in some regions of Kazakhstan. Migration potential is almost exhausted, although it is still necessary to improve other demographic indicators.

There should be concrete measures not to allow a fall in the living standards as, due to the post-war (World War II) upsurge in the birth rate, the percentage of people over 60 years is increasing and it is possible that in the next 10 years their number would increase by 1.5 times.

Taking into consideration the need for sustainable reproduction in the republic and related sustainable development of the country, actions are necessary to improve all demographic parameters to a safe level. The birth coefficient should increase to 2.5 (it was 2.9 fifteen years ago). We should use the experience of other countries, which pursued a policy of supporting families through paying various benefits, supporting working women, developing kindergartens and a housing policy, especially with regard to newly created families.

Increasing life expectancy may positively affect the level of population in the republic, especially the number of working-age people, who suffer from the high mortality rate. In our opinion, it is necessary to increase life expectancy from the current 65.8 years (2003) to 70.5 years by 2015. In order to achieve this, it is necessary to take urgent measures to reduce the incidence of disease and mortality.

Chapter 2. Key Links with Kazakhstan's Neighbors

2.1. Trade, transport, transit⁷

Trade

The growth of Kazakhstan's exports was 17.5 per cent per annum in 1994-2003

Foreign trade plays a major role in Kazakhstan's economy: between 1991 and 2003 the export share to GDP increased by nearly two-thirds (Table 1). The index of the openness of the economy estimated as the ratio of commodity turnover to GDP was 75.2 per cent. Growth in the world energy costs affected the export volume: the growth of Kazakhstan's exports was 17.5 per cent per annum of the world export growth, estimated at 6.2 per cent per annum in 1994-2003. During this period, exports increased 4 times and imports 2.3 times respectively. It is necessary to note that official statistics of this country does not reflect the actual volume of trade through contraband and shuttle trade.⁸ In 2003 the actual volume of trade was 8.8 per cent and exceeded official statistics, proved by comparison of statistical data of foreign trade of partner countries. The commodity turnover of unregistered trade according to official statistics reduced from 30 to 8.8 per cent in 1994-2003.

Table 1. Openness of economy (% to GDP)

	1991	1995	1999	2003
Export	28.5	39.0	35.7	44.5
Import	44.6	43.5	33.6	30.7
Commodity turnover	73.5	82.5	69.3	75.2

Source: Statistical Yearbook «CIS in 2003»

At present, the trade turnover with the countries of CA has stabilized at the rate of 5 per cent of the total level

There were significant changes in the geographical structure of trade in 1995-2003 (Table 2). Export shipments to Asian and North and South American countries have increased due to a substantial reduction in exports to the CIS countries from 55 per cent in 1995 to 23 per cent

⁷ This paragraph is a brief description of the paper that was prepared by the expert team of the Public Policy Research Center for the Asian Development Bank Report "Central Asia Regional cooperation in trade, transport and transit".

⁸ Shuttle trade within 10 000 USD is not counted by custom statistics. This is one of the reasons of imbalance between Kazakhstan trade statistics and statistics of trade partners: China, CA countries. Every quarter National bank accomplishes an extra calculation in Balance of payments for shuttle trade.

in 2003. Exports to the EU countries, except Italy, had also decreased. Exports to Bermuda and the Virgin Islands (the registration place of many intermediary firms dealing with oil export) have risen from 12.4 per cent up to 23 per cent. Shipment volumes to the countries of Asia and non-EU states have grown as well. Exports to Switzerland grew to 13 per cent, and to China – to 12.8 per cent.

At present the trade turnover of Kazakhstan and countries in the region has stabilized at the rate of 5 per cent of the total level. Imports from Kyrgyzstan dropped from 1.2 per cent of total imports in 1998 to 0.6 per cent in 2003, and imports from Uzbekistan dropped during the same period from 2.2 per cent to 1.1 per cent. Imports from Tajikistan varied about 0.1 per cent at the same period.

During the above-mentioned period, exports to Kyrgyzstan increased from 1.1 per cent to 1.2 per cent of the total export amount, exports to Tajikistan decreased from 0.8 per cent to 0.6 per cent, and exports to Uzbekistan decreased from 2.2 per cent to 1.0 per cent respectively.

Table 2. Export and import structure

	Exports			Imports		
	1995	2000	2003	1995	2000	2003
CIS	54.9	26.2	22.9	69.7	54.6	47.1
Russia	45.1	19.5	15.2	49.9	48.7	39.3
Ukraine	2.3	2.9	3.2	2.3	1.6	3.9
<i>Central Asian countries</i>	6	2.8	3.1	14.5	3.1	2.5
Kyrgyzstan	1.4	0.6	1.2	0.8	0.6	0.7
Tajikistan	0.8	0.6	0.6	0.3	0.1	0.1
Turkmenistan	0.9	0.1	0.3	6.3	0.9	0.6
Uzbekistan	2.9	1.5	1	7.1	1.5	1.1
Baltic States	3.2	1.1	0.7	1	0.3	0.4
European Union	21.3	22.7	15.4	12.9	20.1	24.7
the Netherlands	9.7	2.6	1.4	0.8	1.3	1.5
Germany	3.3	6.2	1.1	5.2	6.6	8.9
Great Britain	2.1	2.5	1.1	2.2	4.3	3
Italy	2.7	9.8	7.9	0.8	1.3	2.9
Other states	23.8	51.2	61.7	17.4	25.3	28.2
China	5.7	7.3	12.8	0.9	3	6
USA	0.8	2.3	0.8	1.7	5.5	5.6
Turkey	1.3	0.7	0.8	3.2	2.8	2.6
Switzerland	3.6	5.3	13	0	0	0
Bermuda and Virgin Islands	12.4	26.5	21.7	0	0	0

Source: the Agency of Statistics of the Republic of Kazakhstan

The export accounts for about half of GDP, and oil comprises about 55 per cent of this volume

Trade structure. The export of energy resources accounts for about half of GDP, and oil comprises about 55 per cent of this volume.

A consequence of increased revenue for the population is an increase of imported consumer goods. The share of foodstuffs imported over the last few years has been reducing. In 2003 consumer goods accounted for 26.1 per cent of total imports; petroleum and mineral oil accounted for 12.4 per cent, transport for 9.8 per cent, ferrous metallurgy products constituted 7.9 per cent and chemical substances 2.1 per cent of imports.

Analysis of trade regime. Liberalization of foreign trade continued in 1995-1999. Quota arrangements were cancelled for the export of goods and the list of licensed products was reduced. The average customs rate reduced from 4.9 to 4.2 per cent, and the practice of customs and tax privileges and requirements (on the delivery of 50 per cent) of export proceeds was stopped (August, 1995). There was a transition to the international register of goods for foreign trade activities (since 15 June, 1997). The need for export contracts was cancelled for all companies except state enterprises. The procedure of goods export from Kazakhstan became easier. All legal entities and individuals (except state enterprises) obtained the right to export goods without the need for a certificate of exchange transaction. The licensing procedure for export and import of goods was simplified to create more favorable conditions for foreign trade, and the reduction in licensing was brought in line with the international standards and regulations. The list of products subject to obligatory certification as well as the new Customs code was adopted.

Evaluation of export regime. Export duties were approved for cattle, sheep and other raw hides and leather, waste and re-usable products of ferrous metals and metal products, waste and re-usable copper products, raw secondary aluminum, sections of rails or tram locomotives. These duties are applied on the basis of the principle of the most favored nation, with the exception of export of goods to the countries of the EAEC. According to the agreement between the Government of Kazakhstan and the European Union on Coal and Steel trade, the export of waste products and recyclable products from ferrous metals is exempt from duties to the EU.

Export prohibitions. The export of forest, timber and certain wood products has been forbidden since July 2002 to protect woods and to decrease illegal deforestation. Temporary interdictions for necessary stocks of diesel fuel during autumn and spring farming work and fuel oil during the cold seasons has been adopted. Customs registration and exports control is performed by the “same day” principle, to stimulate and develop export potential without the need for temporary storage.

Export licensing. The permit system of Kazakhstan checks the export of the limited list of things such as arms and dual-purpose goods. Regulations are applied with the aim of protecting the health of the population and national safety.

The export of wild fauna and flora under the threat of extinction is carried out with the permission of the Committee of Wood and Hunting within the Ministry of Agriculture. Falcons and snow-leopards can only be exported with the permission of the Government. The existing system of export control generally corresponds to the international standards.

Evaluation of import regime and import tariffs. The level of the average tariff is 4.7 per cent in Kazakhstan, more than twice the average world level of tariffs (2 per cent). The most often-applied duty rates in Kazakhstan are 0 and 5 per cent. About 58 per cent of goods are imported to Kazakhstan at the 2.5 per cent rate.

The most protected industries are light industry and metallurgy markets. The import of textiles and footwear is imposed with the duty at the rate of 21 per cent. Duties for the import of ferrous and nonferrous metals and products are 12 per cent.

According to bilateral agreements on free trade with the CIS countries (except Turkmenistan), the import of goods from these states is duty free.

Other import taxes. Imported products are subject to VAT and excise tax. The rate of VAT is 15 per cent of the total taxed import including the customs cost of imported goods, and the sum of taxes and other obligatory payments. Local authorities have no right to adopt any new import taxes. Excise duty is paid on imports of alcohol, tobacco, sturgeon caviar, gasoline and diesel fuel. The excise duty for these imported goods exceeds 1.5-8.9 times the rates of taxes on similar internally manufactured goods.

*Special
antidumping and
compensatory
measures are no
longer applied in
trading practice*

Import licensing and import prohibitions. Licensing for the import of the majority of goods has now been cancelled. Nevertheless, Kazakhstan supports the permit system for the import of a limited range of goods, medicines, drugs, coding devices and other goods. Arms and military products, as well as technologies necessary for their manufacturing, nuclear designing, equipment and installations, sources of radiation are also subject to licensing, and here the government approval is required. Licensing procedures are generally slow and non-transparent, which raises the cost of the goods.

Import of printed or graphic materials, which threaten national safety, or war and terrorism propaganda and pornography, is prohibited.

Kazakhstan can apply special antidumping and compensatory measures to the import of those goods, which may damage domestic ones. However, these measures are no longer applied in trading practice.

Other aspects of the trade regime. From June, 1997 to 2004 the CIS register corresponding to the Convention of General Classification Rules of the WTO was used. In January, 2004 the transition from the 9-marks uniform register to a 10-marks uniform register of EAEC was implemented. Kazakhstan joined the International convention on the harmonized system of description and coding of goods to enable uniformity of goods classification for the custom duties and statistics.

Customs control. In December 1991 special Decree of the President established Kazakhstan Customs Committee. The country is a Member of the World Customs Organization since 1992. Harmonization and unification of the customs legislation to the international standards was implemented. The improvement of the customs legislation aimed at simplifying customs procedures and speeding up the formalities.

*The growth in the
volume of foreign
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according to the
Customs Code
updated in May 2003*

The growth in the volume of foreign trade was promoted by the simplification of customs procedures according to the Customs Code updated in May 2003. Customs procedures were harmonized according to the Convention on Simplification and Harmonization of customs procedures (Kyoto Convention). For the purpose of assisting inter-regional trade mutual boundary processing of cargoes is carried out between Kazakhstan and Kyrgyzstan, thereby saving resources. However, implementation

of the similar work between boundary authorities of Kazakhstan and other countries of the region is complicated, as harmonization of legal customs structures has not taken place. Such requirements make this initiative one of the most difficult to fulfill.

The analysis of barriers to domestic and inter-regional trade. In 1999-2002 Kazakhstan used antidumping and special duties to protect the domestic market with limited imports from Russia, Uzbekistan and Kyrgyzstan. These commercial barriers supported competition in the domestic market.

Kazakhstan's accession to WTO. An Interdepartmental Commission on tariffs and customs policy and its participation in the international economic organizations coordinates the process of Kazakhstan's accession to the WTO. The Commission includes representatives from the Ministries and the Parliament of Kazakhstan. The meetings of the Commission are carried out quarterly as necessary ones. The working authority of the Commission is the Ministry of Industry and Trade of the Republic of Kazakhstan.

The Working group on the accession of Kazakhstan to the WTO (hereinafter the Working group) includes 32 countries which constitute the principal commercial partners of Kazakhstan (USA, EC, Canada, Japan, Australia, Switzerland, China etc).

Kazakhstan held 7 meetings of the Working group (March and October 1997, October 1998, July 2001, December 2002, March 2004, July 2004) and 12 rounds of bilateral talks on conditions of entry into the market of goods and services, and special talks on measures for domestic support and subsidies for agriculture.

The amended offers on entry into the goods and services market, state support of agriculture and export subsidies, technical barriers for trade, sanitary measures, licensing of imports etc. were considered at the last meeting of the Working group in March 2004.

Since 2003, Kazakhstan's joining procedure was completed, and the country started negotiations with member countries of the Working group to determine the conditions of WTO membership.

The multilateral and bilateral negotiations regarding the accession of Kazakhstan to WTO are:

Since 2003, Kazakhstan started negotiations with member countries of the Working group to determine the conditions of WTO membership

- Conditions of entry into the goods market of Kazakhstan;
- Conditions of entry into the services market of Kazakhstan;
- Agriculture;
- Systems matters.

Negotiations on conditions of entry into the goods market of Kazakhstan include determining and coordinating the maximum level of import customs duties with Member-Countries of the Working Group. These can be used by Kazakhstan after its accession to WTO.

Rates of import customs duties approved by the Interdepartmental Commission on WTO accession (hereinafter referred to as IDC) are the grounds for negotiations. These levels are developed using information from local ministries and the opinions of domestic manufacturers.

Negotiations on the conditions of entry into the services market of Kazakhstan are held to coordinate conditions of entry of foreign service suppliers into the market of Kazakhstan. Offers by Kazakhstan to enter services market approved by IDC are the grounds for talks.

Kazakhstan is improving the Specific Obligations List within agreement with WTO Member-Countries, special written comments from member-countries of the Working group, economic programs on the development of the service sectors and amendments to legislation in the service sector of the country.

Special negotiations on agriculture include discussion of state support for agriculture and rates of export subsidies as well as tariff aspects.

Transport

The transport infrastructure plays a very important role in ensuring effective inter-business and transnational links. Kazakhstan has a large area (2,725 thousand square kilometers), a low population density (6 people per sq.km), the dispersion of industrial and production centers, and no exit to the sea.

The transport infrastructure includes rail, road, air, maritime and pipeline transport. In 2003 its share of the Gross Domestic Product amounted to 10.4 per cent. In 2003 1687.5 million tons of goods

Special negotiations on agriculture include discussion of state support for agriculture and rates of export subsidies

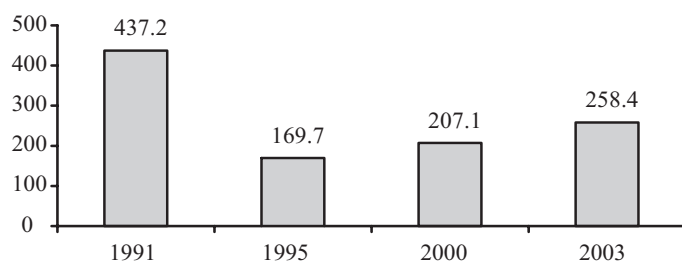
In 2003 1687.5 million tons of goods were transported, the volume of cargo turnover was 258.4 bln. tons per km

were transported, 78 per cent of which (202.7 mln. tons) was by rail. The growth of oil extraction affected the growth of pipeline transport up to 9.9 per cent (166.1 million tons) in 2003.

As of 1 January, 2004 the transport network includes 14.3 thousand km of railway, more than 89.0 thousand km of road, 4.0 thousand km of internal water navigable ways, and 16.9 thousand km of main pipelines.

In 2003 the volume of cargo turnover was 258.4 bln. tons per km (see Figure 7). 22.9 per cent of transport services fall to the informal sector.⁹

Figure 7. Goods turnover by all types of Transport, bln. tons/km



Source: the Agency of Statistics of the Republic of Kazakhstan

The majority of the turnover of goods in 2003 was represented as follows: 57 per cent by rail, 27 per cent by pipeline, 16 per cent by road transport. Cargo transport is illustrated in Table 3.

Table 3. Cargo Transport Work by Mode of Transport, 1990-2003

bln. tons/km

	1991	1995	2000	2003
Total	437.2	169.7	207.1	258.4
Rail	374.2	124.5	125.0	147.7
Road*	44.2	20.1	31.0	40.2
Air	0.1	0.15	0.12	0.09
Maritime	3.4	0.8	0.04	0.07
Pipeline	15.3	24.2	50.9	70.4

* – estimate of volume of cargoes transportation by businessmen (individuals), engaged in commercial transportation.

Source: the Agency of Statistics of the Republic of Kazakhstan

⁹ According to the Agency of Statistics of the Republic of Kazakhstan data

The development of Kazakhstan's transport system is aimed at diversifying the routes providing foreign economic communications and establishing national links to the global transport corridors.

For the purpose of considering the problems of the transport infrastructure the *State Transport Policy of Kazakhstan up to 2008* and the *Program for the Development of Transport and Transit Capacity of Kazakhstan for 2004-2006* were accepted.

Road. The road network was the first sector of the transport infrastructure to be reformed when mass privatization took place. There is no state company, and all carriers are private. Only 6 per cent of the trucks are state owned, and 94 per cent are private ones.

The state enterprise "Kazavtodor", carries out repair and maintenance of roads under the Ministry of Transport and Communications.

It was mainly foreign operators who carried out international road cargo transportation in Kazakhstan to the middle of the 1990s. In 1995 the union of Kazakhstan Automobile Transport Operators (KazATO) joined the International Road Transport Union (IRU) and, since 1996, was approved as a member of the TIR system (the Customs convention on international transportation of cargo with application of TIR-book). As of 20 December 2004 there are 160 enterprises belonging to this Association.

Railway. The national rail operator is Kazakhstan Temyr Zholy state owned company which controls the main railway network and cargo carrier. There are practically no private carriers in the country. Railways and pipelines belong to natural monopolies.

Kazakhstan mainly borders the states of the CIS, whose railway network, like Kazakhstan's, was constructed according to the uniform technical standards. So, crossing state borders by rail presents no technical problems.

The exception is connection of the Kazakhstan railway network with rail network of China, which has narrower rail tracks. Therefore the rail transportation through the border of Kazakhstan and China (boundary junction Dostyk – Alashankou) requires additional operations.

Pipelines. Pipeline transport in Kazakhstan is dominated by oil pipelines (6758 km) and gas mains (10138 km) which are state owned. Transportation of oil and gas is managed by the state owned companies “Kaztransoil” and “Kaztransgas”. Oil is transported via Russia and the Caucasus.

The “Friendship” pipeline system allows the transportation of petroleum through export terminals on the Black and Baltic Seas, and through the trans-Caucasus transport corridor (Aktau – Baku – Batumi) to the Europe. Since 2001 the Caspian Pipeline Consortium (CPC) has been in operation.

Maritime. To assist the development of *sea transportation*, the Government of Kazakhstan established the National Company “Kazmortransflot”¹⁰ which delivers cargo to Russia, Georgia and Iran on chartered vessels. Regarding river transport, private companies handle the transportation of cargo.

Aktau International Sea Trading Port on the Caspian Sea plays an important role in trade and economic relations. The port handles export-import, transit cargo from the enterprises of Kazakhstan, Russia, Iran, Central Asia and other states. In 1999, the first phase of reconstruction was completed and, as a result, the capacity of the reloading facility increased from 300 thousand tons to 1.5 million tons of dry cargo per annum. The oil carrying capacity is up to 8.0 million tons. The rail-ferry way from Aktau to Baku connected the railways of Kazakhstan, Azerbaijan, and Georgia.

Air. Structural reforms had taken place in the sphere of air transport. Airports were transformed into independent enterprises, then to the joint-stock companies and later privatized. At present, the state owns a 51 per cent share of the “Air Astana” air company (while 49 per cent belongs to the British company). The other 47 airlines are private ones. The state company “Kazaeronavigatzia”, has developed modern systems of radar-location, radio-navigation and communication and put into operation the automated centers for the management of air movement.

24 of the existing 48 airlines deal with regular passenger transport and 24 specialize in aviation work. More than 85 per cent of passenger turnover is carried out by the state-owned airlines.

¹⁰ Resolution No.1239 of the Government of the Republic of Kazakhstan on December 4, 1998.

Key transport corridors

Rail corridors. There are the so-called *transport corridors* all over the Euro-Asian continent. Various international organizations initiated their creation, including the European Economic Commission (EEC) and Economic and Social Commission of Asia and the Pacific region (ESCAP) of the United Nations.

At the 56th session of the ESCAP (Bangkok, June 2000) five priorities for the organization of the trans-Euroasian transport systems were identified. On that basis the 2nd international Euroasian Conference on Transport (St. Petersburg, September 2000) offered to start forming appropriate transport corridors as follows:

- TRANSSIB: Western Europe – China, the Korean peninsula and Japan through the Ukraine, the Russian Federation, Kazakhstan and / or Mongolia;
- TRACECA: Eastern Europe – the Central Asia via the Black Sea, the Caucasus and the Caspian Sea;
- CENTRAL: South-East Europe – China through Turkey, Iran and the countries of Central Asia;
- SOUTHERN: South-East Europe – the South-East Asia through Turkey, Iran and the countries of Southern Asia.
- NORTH – SOUTH: Northern Europe – the countries of the Persian gulf through Russia and the countries of Central Asia or Caucasus.

Four (out of five determined in St. Petersburg) corridors are of direct interest for Kazakhstan. They are TRANSSIB, CENTRAL, TRACECA and NORTH-SOUTH as they pass through Kazakhstan and are formed on the basis of the existing transport infrastructure. All routes running through Kazakhstan reduce the distance in communications between Western Europe and the Far East.

The development of international railway routes between Europe and Asia is being conducted under the aegis of the Organization for Railways Cooperation (ORC). 13 basic transcontinental routes have been formed today and some of them have up to nine branches. Kazakhstan has 6 of the basic routes of the ORC and their branches.

The Euro-Asian transcontinental routes use the sections of Kazakhstan's railways, which are systematized within the republic as a part of four transport corridors. These corridors approved by the Government, according to the Concept of Development of International Transport Corridors of Kazakhstan, are:

- NORTHERN (corresponds to a fragment of the southern part of the TRANSSIB corridor);
- CENTRAL (corresponds to fragment of CENTRAL and TRACECA corridors);
- WESTERN (corresponds to a fragment of the eastern part of the NORTH – SOUTH corridor);
- CENTRAL ASIAN (corresponds to a fragment of the northern part of TRACECA).

Road corridors. The Kazakhstan network of international roads are connected with Russia's road network in the north and west, Russia and China in the east, and the road network of the Central Asian states in the south.

The road network of Kazakhstan is integrated into the European and Asian sub-regional systems of highways with exit to many states and the largest ports. The appropriate sections of roads in Kazakhstan are parts of:

- Networks of the Asian highways formed by the countries of the Organization of Economic Cooperation (under the aegis of ESCAP of the UN);
- TRACECA project;
- Networks of international roads of the CIS countries.

In view of the role and value of separate highways in the implementation and development of interstate communication, six basic routes (automobile corridors) had been allocated to the country's network of roads of international standard. This was done to provide inter-regional and transit transportations within Asia and Euro-Asia.

Air corridors. Kazakhstan's airspace is attractive for the implementation of transit from Europe and Russia to the countries of South-east and Central Asia.

The extent of the routes has been increased up to 60 000 km, and the total amount of air corridors for international

communication was 66 in 2003. At present, the total amount of flights per annum 100,000, and more than half of them are used for transit.

14 out of 21 airports are allowed to serve international flights. The production facilities of most of Kazakhstani airports are of a low level and 60-80 per cent of them are worn out.

Maritime corridors. The development of the port of Aktau is one example of competitive international transport corridors aiming to increase the transit capacity of the country. The port is seen as a multi-modal transport junction in the structure of international transport corridors such as TPACECA and “NORTH-SOUTH”.

Transit through the port of Aktau is 0.2 million tons per annum nowadays. It can be explained by weak development of road and railways that connect Aktau with eastern, central and northern oblasts of Kazakhstan. The development of transit and transport potential is restrained by such factors as slow development of international transport corridors which are directed via the Caspian Sea.

Participation in international transport agreements. The UN EEC has developed more than fifty international conventions and agreements regulating both legal and organizational mutual relations on all types of ground transport. Kazakhstan joined nine of them.

Along with the international conventions and agreements the important role is played by bilateral and multilateral contracts between the countries participating in international transport corridors. These contracts cover certain questions of legal and organizational matters on the unobstructed crossing of borders and responsibility of the parties participating in cargo transportation.

Analysis of transport operations

National transport flow (goods flow in domestic trade). The completion of the branch line from Altynsarino to Khromtau will solve the communication problems between the regions of the country and reduce transport costs. The former absence of direct railway communication in this region led to the crossing of Russian borders by train, customs and passport control, increase of transit time by 12-15 hours, which stimulated additional charges on cargo transportation.

The new line has reduced the distance between western, central and northern regions of the country by 2000 km, and for 1500 km for passenger transportation.¹¹

Due to the low density of railways and waterways, roads play an extremely important role in cargo and passenger communication, and remain the only transport infrastructure in many regions.

Some of the types of transport used for cargo transportation and their recent turnover are illustrated in Table 4.

From the total amount of transportation carried out by all types of transport international cargo transportation (export, import, and transit) accounts for less than 10 per cent

Table 4. Cargo transportations by mode of transport, 1999-2003

Type of transport	Cargo transportations (mln. tons)				
	1999	2000	2001	2002	2003
All types of transport including:	1,065.9	1,293.1	1,404.5	1,531.1	1,687.5
Railway	133.7	171.8	183.8	178.7	202.7
Road*	825.8	982.0	1,076.9	1,219.3	1,318.2
Pipeline	106.2	138.8	143.3	132.6	166.1
Water	0.2	0.45	0.5	0.5	0.5
Air	0.02	0.02	0.01	0.02	0.02

Due to the low density of railways and waterways, roads play an extremely important role for many regions

* – estimate of volume of cargoes transportation by businessmen (individuals), engaged in commercial transportation.

Source: the Agency of Statistics of the Republic of Kazakhstan

From the total amount of transportation carried out by all types of transport, internal one accounts for more than 90 per cent, and international cargo transportation (export, import, and transit) – less than 10 per cent.

Transport flows to the neighboring countries. In spite of rather small volumes of international cargo transportation (less than 10 per cent of the total transportation) carried out by all types of transport in Kazakhstan, it is one of the most effective tools of international integration.

Railways represent the largest sector of cargo transportation (70 per cent) in international communication, and preserve the leading role in transport activity.

¹¹ I. Prokhorov. Railway of accomplishments and expectations // Kazakhstanskaya Pravda, No. 274, December 1, 2004.

Raw materials constitute the main export, including coal (44 per cent), crude petroleum (16 per cent) and minerals (16 per cent)

The share of *pipeline transport* represents about 25 per cent of international transportation and this proportion is increasing. Used only for the transportation of hydrocarbon raw materials and mineral oil, pipeline transport considers as a special type of transport.

The use of *road transport* is insignificant in respect of its volume (up to 3.5 per cent) in international transportation, but it is used for the transportation of the most valuable and urgent cargoes.

The national company, “Kazmortransflot” delivers goods for export purposes to the port of Aktau, which is called “*sea transportation*” by statistics.

Air transport is an important factor of transit potential of the country. Its current participation in freight traffic is extremely limited. It functions, basically, as a carrier of passengers and has an important role in transcontinental travel between Europe and Asia.

Export and import transportation. The basic volume of export-import transportation in Kazakhstan is *carried out by rail*, accounting for about 40 per cent of the total freight traffic.

The basic volume of export belongs to northern and western economic regions, which are the main consumers of imports.

Raw materials constitute the main export, including coal (44 per cent), crude petroleum (16 per cent) and minerals (16 per cent). Export transportation was characterized by a steady decrease in 1989-1999 with a renewal of growth in 2000.

Imports include a wide nomenclature of transported cargo, about half of which are minerals, fluxes, chemical and foodstuffs.

The basic volume of export-import transportation is undertaken by road transport with the neighboring countries: Russia and Kyrgyzstan. The significant growth in the volume of exports (by almost 14 times) to Kyrgyzstan can be explained by transportation of calcareous stone from border areas.

The tendency to import to distant foreign countries is currently increasing in Kazakhstan. A considerable volume goes to the Asian countries: China (4.4 per cent), Turkey (1.4 per cent) and Iran (0.6 per cent).

Exports to China and Iran considerably exceed imports from these countries. Turkey remains a major importer of goods to Kazakhstan.

In recent years there has been a growth in the share of operators from Kazakhstan engaged in foreign trade road transportation to and from Kazakhstan. The percentage of domestic carriers is more than 50 per cent of all transportation between Kazakhstan and foreign states. Russian carriers take second place with 29.8 per cent. Considerably smaller volumes are covered by carriers from the following countries: Kyrgyzstan 3.0, Turkey 1.8, Iran 1.4, Uzbekistan 1.6, Belarus 1.0, China 0.7, Germany 0.8, Lithuania 0.7 and Latvia 0.6 per cent respectively.

The percentage of domestic carriers is more than 50 per cent of all transportation between Kazakhstan and foreign states

Transportation by domestic carriers is less than 5 per cent to the countries of Asia, including Uzbekistan, Mongolia, Turkey and Iran, located in proximity from Kazakhstan. The Kazakhstan carriers have practically no involvement in the transportation of export cargo to Lithuania.

Carriers from Kazakhstan have well developed export-import transportation between Kazakhstan and China (87.4 per cent), from Kazakhstan to Spain (66.5 per cent), from Kazakhstan to Russia (61.0 per cent), from Kazakhstan to the Ukraine (58.2 per cent) and from Kazakhstan to Kyrgyzstan (55.6 per cent).

At the same foreign carriers now dominate cargo transportation to other Asian countries as the following:

- Kazakhstan – Turkey (mainly Turkish carriers, 93.2 per cent);
- Kazakhstan – Iran, United Arab Emirates (Mainly Iranian carriers, 94.6 and 70.0 per cent respectively);
- Kazakhstan – Uzbekistan (mainly Uzbek carriers, 89.2 per cent);
- Kazakhstan – Mongolia (mainly Russian carriers, 90.7 per cent).

The situation is similar for communications with West-European countries, such as Italy, France, the UK and Poland.

The position of Kazakhstan's carriers in export-import transportation with the CIS countries, especially with Russia, is good. Their position in respect to the international transportation to distant foreign countries of Europe and Asia is weaker despite the fact that this transportation represents a special economic interest.

Export of transport services accounted for 46.4 per cent of the total export of services in 2003, whereas import was or 20.7 per cent of import of services

Trade in transport services. The country is an importer of transport services. Export of transport services accounted for USD 823.41 million or 46.4 per cent of the total export of services in 2003, whereas import was USD 834.97 million or 20.7 per cent of import of services (Table 5).

In 2003 the rail network constituted 202.9 million dollars of export (25 per cent) and 372.4 million dollars of import (45 per cent) of transport services. Due to the growth in oil extraction compared to 2002, the share of pipeline transport in the export of transport services had also increased. It is 314.5 million dollars of export or 38 per cent of all export of transport services. Import by pipeline transport was only 2 million dollars or 0.2 per cent of transport services import. Exports of road services was 128.8 (15.6 per cent) and imports 172 million dollars (20.6 per cent). Air transport accounted for 147.8 million dollars of export (18 per cent) and 235.2 million dollars of import (28 per cent) of transport services.

Table 5. Transport services in Balance of Payments, 1998-2003

USD, mln.

	1998	1999	2000	2001	2002	2003
All Services						
(net)	-250.80	-164.00	-871.75	-1,524.57	-2,152.78	-2,251.44
Credit	903.00	927.50	1,131.87	1,300.61	1,584.13	1,773.54
Debit	-1,153.80	-1,091.50	-2,003.62	-2,825.18	-3,736.91	-4,024.99
Transport						
Services	-31.4	27.2	56.41	-3.93	-12.18	-11.56
Credit	386.5	418.8	540.25	623.95	681.85	823.41
Debit	-417.9	-31.6	-483.81	-627.88	-694.03	-834.97
Other Services	-219.4	-190.2	-928.71	-1,520.63	-2,140.59	-2,239.89
Credit	516.5	508.7	591.64	676.66	902.29	950.13
Debit	-735.9	-699.9	-1,519.81	-2,197.29	-3,042.88	-3,190.02

Source: Balance of payments of the National Bank of the Republic of Kazakhstan

Obstacles to the development of transit corridors in CA:

- Poor quality of infrastructure networks;
- Absence of temporary storage warehouses especially at borders;

- Limited choice of routes;
- Absence of available information for consignors necessary for choice of cargo transportation route concerning condition of the road infrastructure, boundary transitions, time and operating procedure of supervising bodies, duties for travel, visa requirements, etc;
- Delays of transport at borders (may take several days). Very long-drawn-out border and customs procedures, complicated and non-standardized documentation, bad organization and absence of sufficient skills;
- Visa problems;
- Non-authorized duties, imposed by the representatives of the government bodies, which result in increased tariff rates for transportation by road;
- Absence of state statistics on transit freight traffic in respect to transport corridors that does not allow estimating of the level of development of that transportation, and competitiveness of transport corridors;
- There are serious inconsistencies in the customs statistics in this region. Discrepancy of data in individual states;
- Absence of proper accounting and control over movement of transit cargo through the corridors leads to the “false traffic”, i.e. transit cargo remains at the territories of transit countries;
- Corruption. According to the data of the Transparency International (TI), that annually estimates different countries on corruption level, all SPECA (Special Programme for the Economies of Central Asia) countries have high levels of corruption. Corruption influences the amount of revenues collected as customs taxes, but also has impact on the business and transit climate of the country.

Transit

The location of Kazakhstan in the center of Eurasia, vast areas and the absence of direct exit to the sea are important factors in the development of its transit potential. According to the opinion of the Minister of Transport and Communication, profits

from transit through Kazakhstan are estimated at about 2 billion dollars per year.¹²

The program for development of transit and transport capacity of Kazakhstan for 2004-2006¹³ determines the priorities and focuses on possible ways of transit development.

Key transit directions. The principal part of transport work in Kazakhstan is transit. In view of significant distances, this is done mainly by rail.

Dynamics of rail transport within Kazakhstan's boundaries shows that the volume of transit by the rail network has reduced almost 20 times over the last decade, having stabilized by the beginning of the new millennium at the level of 5.6 million tons per year.

In previous years the basic volume of transit by the rail network of Kazakhstan consisted of inter-regional communications between Russia and other republics of the former Soviet Union. The share of transit in the communications from Russia to the CA republics was 50-70 per cent, and in the communications "from the west to the east" varied at the level of 30 per cent.

The basic volumes of transportation are conducted within the CENTRAL ASIAN and WESTERN corridors. The influence of transcontinental transit (northern route of TPACECA corridor) for transportation through Chengeldy and Beineu rail stations is not considered to be significant. That is why the volume of transit growth can be considered as adequate to the average growth of gross domestic product in CA countries. It is estimated for 3-7 per cent during 2004-2006.

Prospects for growth of rail transit in Kazakhstan are depended with introducing republican trunks into the Euro-Asian system of transcontinental routes, as well as with the transportation through Dostyk – Alashankou international rail.

Transit. At present transit through Kazakhstan is estimated at approximately 10 million tons per year, 7 million tons of which is railway transportation, 0.1 million - road and the remainder is a pipeline one.

Transit through Kazakhstan is estimated at approximately 10 million tons per year

The share of transit in the total amount of transportation is estimated at 3-4 per cent

¹² Minister of Transport and Communication, Kazhymurat Nagmanov's speech at the "TransEurAsia" International Conference, Astana, June 17, 2004 //Kazinform.

¹³ Resolution No. 1351 of the Government of the Republic of Kazakhstan on "Confirmation of transit-transport development program of Republic of Kazakhstan for 2004-2006", December 30, 2003.

The share of transit in the total amount of transportation at its peak (1989) was 30 per cent. Now it is estimated at 3-4 per cent. The dynamics of transit by rail is illustrated in Table 6.

Table 6. Transit by rail in 1989-2003

Years	Volume of cargo transportation (million of tons)	Year	Volume of cargo transportation (million of tons)
1989	105.7	1998	5.9
1992	64.3	1999	4.9
1993	32.8	2000	5.6
1995	9.7	2001	5.6
1996	9.8	2002	6.1
1997	7.9	2003	6.7

Source: National Company Kazakhstan Temir Zholy, with the exception of 2002 which received from the Agency of Statistics of the Republic of Kazakhstan

Transcontinental transit through Kazakhstan now is being developed

Transcontinental transit through Kazakhstan now is being developed and the density of transit structure is correspondingly poor. The volume of rail transit via Kazakhstan is indicated in Table 7.

Table 7. Directions of transit by the rail network of Kazakhstan, 1989-2003

mln. tons

	1989	1993	1995	1997	1999	2000	2001	2003
TOTAL	105.7	32.8	9.7	7.9	4.9	5.6	5.6	6.7
including:								
Eastern regions								
of Russia – West	20.8	4.7	-	-	-	-	-	-
Central Asia –								
East, West	66.1	24.2	9.0	7.0	4.4	4.6	4.8	5.6
Ural – European								
and Asian regions								
(including the port								
of Aktau)	15.7	3.7	-	-	-	0.2	-	-
Within Central								
Asian region	3.1	0.8	0.4	0.4	0.2	0.3	0.2	0.2
Asian-Pacific								
region – West –								
South – East	-	-	0.3	0.5	0.3	0.5	0.6	0.9

Source: National Company Kazakhstan Temir Zholy

Discrepancies in estimates for transit make difficult to calculate the volume and character of transit using the roads of Kazakhstan

Transit via the Dostyk rail station is still extremely unstable: there were 660 thousand tons in 1996; 285 thousand tons in 1999; 400 thousand tons in 2001, and 700 thousand tons in 2002.

The volume of transit by road is less significant. The transit transportation of cargo from neighboring countries through Kazakhstan is, generally, undertaken by foreign carriers, and is not included in the state statistics.

The absence of regular statistical accounts for transit freight traffic means that the actual volume, structure and direction cannot be confirmed and does not allow its dynamics to be monitored.

Now the only official source of information on road transit cargo traffic is the Agency of Customs control of the Republic of Kazakhstan (see Table 8). According to their data, the volume of transit for recent years varies from 0.1-0.2 million tons per year. The largest share (about 80 per cent) is from China. The shares of the former republics of Central Asia (approximately 10 per cent) and Russia (3-5 per cent) are much less.

The CENTRAL ASIAN and CENTRAL corridors are used for transit. As the road inspections indicate, the NORTHERN and CENTRAL corridors are used mainly for export-import transportation of cargo.

The basic routes for transit freight traffic: China – Russia (about 45 per cent), China – Central Asia (about 30 per cent), Central Asia – Russia (15 per cent) (see Table 8).

Discrepancies in estimates for transit from different sources make difficult to calculate the volume and character of transit using the roads of Kazakhstan. The question of regulating the system of accounting for transit needs to be addressed.

Pipeline transit includes the transit of gas (since 1997) from Uzbekistan and Turkmenistan to Russia.

Transit by air, according to Kazaeronavigatzia data in 2003 totaled 68.5 million air-kilometers, in 2002 63.5 million air-kilometers, in 2001 56.9 million air-kilometers, and in 2000 it was 62.2 million air-kilometers.

Sea cargo transportation. The development of transit through the sea trading port of Aktau is linked to the development of international transport corridors TPACECA and the NORTH – SOUTH.

Table 8. Transit by road through Kazakhstan in 2001-2004

State of dispatch	State of destination	Volume of cargo turnover through Kazakhstan, tons			
		2001	2002	2003	1st half of 2004
China	Azerbaijan	1,344.2	1,489.4	1,734.9	2,195.8
	Armenia	796.4	632.3	538.2	328.8
	Afghanistan	0.0	0.0	42.2	566.2
	Georgia	1,141.4	1,420.3	1,721.0	841.2
	Iran	225.4	0.0	213.1	1,045.3
	Kyrgyzstan	18,504.9	34,901.4	13,501.8	44,775.0
	Russia	35,800.9	31,654.8	20,513.0	6,271.3
	Tajikistan	3,597.2	13,553.0	34,966.8	14,054.7
	Turkmenistan	302.4	1,004.2	1,307.4	6,102.1
	Uzbekistan	11,101.3	11,438.7	1,107.4	2,744.0
	Ukraine	12,251.5	905.2	75.0	92.4
	Others	262.0	82.5	15.1	32.3
	Total	85,327.6	97,081.8	75,735.9	79,049.1
Korea	Kyrgyzstan	75.9	0.0	0.0	568.7
	Total	75.9	0.0	0.0	568.7
Kyrgyzstan	China	0.0	784.3	4,297.2	106.0
	Russia	6,675.9	6,090.2	2,421.0	194.9
	Others	17.2	18.4	37.9	530.4
	total	6,693.1	6,892.9	6,756.1	831.3
Uzbekistan	Russia	6,411.8	4,218.1	3,492.5	1,362.1
	Others	1.3	12.5	17.2	0.0
	Total	6,413.1	4,230.6	3,509.7	1,362.1
Russia	China	0.0	516.1	1 307.2	38.6
	Kyrgyzstan	1,725.1	2,592.6	2,280.7	764.3
	Tajikistan	102.9	260.1	247.1	39.1
	Turkmenistan	9.1	139.1	112.0	0.0
	Uzbekistan	1,142.9	706.9	2,899.8	547.8
	Others	0.1	0.0	20.9	0.0
	Total	2,980.1	4,214.8	6,867.7	1,389.8
Tajikistan	Turkmenistan	0.0	0.0	511.0	0.0
	Total	0.0	0.0	511.0	0.0
Turkmenistan	China	0.0	0.0	94.6	0.0
	Total	0.0	0.0	94.6	0.0
Others	Others	353.0	344.5	276.0	66.4
	totally	101,842.8	112,764.6	93,751.0	83,267.4

Source: data from the Customs Control Agency

2.2. Water, energy and environment

Water

The water sources in the country account for only 56 per cent of total water resources

The most critical problem for Kazakhstan, which is situated in an arid zone, is the provision of water. Firstly, there is a water deficit both in the country as a whole, and in the regions. Secondly, as a result of human activity on superficial and ground waters, there is a high level of chemical and microbe pollution. The lack of pure and qualitative sources of drinking water is the main factor hampering the development of rural areas and small cities. Data on provision of the population with drinking water for 1998-2003 (Table 6) and sanitary conditions in regions in 2003 (Table 7) are seen from the Appendixes.

The water sources in the country account for only 56 per cent of total water resources – other water comes from Kyrgyzstan, Uzbekistan, China and Russia.¹⁴ Uneven distribution of superficial water sources and significant seasonal fluctuations increases the dependence of human development prospects of the country's efficiency of water resources use.

Unpractical irrigation and inefficient regulation of flows caused water deficiencies in both the small and big rivers

At present there is no effective economic or administrative stimulus for more economic use of water resources, resulting in its significant losses. The privatization of state and collective farms has not improved the practice of water use.

Unpractical irrigation and inefficient regulation of flows caused water deficiencies in both the small and big rivers, such as the Ili, Syrdarya, Ishim rivers and other water basins. The area of the Aral Sea has reduced three times owing to the excessive cultivation of cotton in Kazakhstan and Uzbekistan, and became lifeless. The same could happen, if appropriate measures were not taken, to the Balkhash Lake. The eco-catastrophe of the Aral Sea caused social and economic problems, including a high level of poverty and unemployment, a growth in the number of diseases and migration. Besides, it has had a serious influence on the development of the region.

The question of trans-boundary waters distribution is still the most important issue in international relations

The problems of the trans-boundary rivers. Superficial waters are the main water source in Kazakhstan. The biggest trans-boundary rivers such as the Syrdarya, Irtysh, Ishim, Ural

¹⁴ National Human Development Report 2003: Water as a Key Human Development Factor, Almaty: UNDP, 2004.

rivers, and some other ones, constitute the main water system of the republic. They are distributed unevenly in the country with the sources originated in other countries: Kyrgyzstan, China and Russia. Therefore the question of trans-boundary waters distribution is still the most important issue in international relations with Kyrgyzstan and China.

The resource approach to water use prevails in the CA region, and the ecological role of water resources is not considered at all. This affects the quality and availability of water for the rural population of Kazakhstan which, in turn, causes health problems and a reduction in life expectancy. The acceptance by Kyrgyzstan and Uzbekistan unilateral actions towards the trans-boundary resources management, without considering the interests of the neighboring states, has led to ecological problems in the lower reaches of the rivers and the lack of water provision for irrigation. Every year disputes emerge between the governments of Kazakhstan, Kyrgyzstan and Uzbekistan, and agreements for control of the Toktogul HPS are rarely reached. Collaboration of the Central Asian countries on water distribution has become a subject of regional and bilateral negotiations and projects, frequently coming to an end with the signing of official agreements, creation of joint commissions and development of a joint policy over water use. However there is a serious gap between policy and its implementation.

The stable economic development of the region depends on the effective intergovernmental cooperation. It is expedient to build the control of trans-boundary rivers on the principle of international conventions. The search for an optimal balance between irrigation and water-power engineering, equal conditions of water use remains the main task requiring a coordinated policy on water resource management. Success will depend on the consecutive rapprochement of the national legislation with international law for water resources management.

It is necessary to establish a trilateral (Kazakhstan, Russia and China) agreement on the use and protection of the Irtysh River resources and joint monitoring of its quantitative and qualitative indicators. Exchange of information and the development of a joint Water Commission of the three countries would also be advantageous.

Energy

Owing to its natural resources potential, Kazakhstan is one of the few countries of the world capable to export them in significant volumes. For this reason, the energy policy and strategy of the republic is based on:

Oil production in Kazakhstan in 1992-1999 increased by more than 10 per cent, but domestic consumption had fallen 2.7 times

- The development of the power base for the stable economic growth of the country;
- The satisfaction of the needs of the republic in energy resources;
- The effective use of fuel-energy resources;
- The reliable functioning and further perfection of energy supply systems.

The fuel-energy resources are distributed very unevenly throughout the country. Oil and gas clustered in the west of Kazakhstan, coal reserves – in the central and northern parts of the country. South Kazakhstan has reserves of small gas and coal fields. Water-power resources are located in the east and south- eastern parts of country.

The country's oil and gas future is connected with the Caspian region.¹⁵ There are also some deposits in Aktobe, West Kazakhstan and Kyzylorda oblasts.

In the long term, the level of oil production will reach 2 million barrels a day by 2010

Oil production in Kazakhstan in 1992-1999 increased by more than 10 per cent, but domestic consumption had fallen 2.7 times. In its turn, oil export over the last 10 years has increased more than 5 times (from 125 to 630 thousand barrels a day).

...it is planned to extract up to 3 million barrels a day by 2015

In the long term, the level of oil production will reach 2 million barrels a day by 2010, and it is planned to extract up to 3 million barrels a day by 2015.

The export share of extracted oil is forecasted at 75-80 per cent. Now oil export is carried out to Novorossiysk, Samara and Orsk. Barges also deliver oil to Baku and Makhachkala for onward transportation via pipelines. Deliveries by railway go to China and Finland. Oil export development through Kazakhstan – China oil pipeline construction (Atasu – Alashankou) of more than 1,000 km, began this year. It has a capacity of up to 10 million tons of oil per year. The first section

¹⁵ S. Tsalik, Caspian oil windfalls: who will benefit, Almaty, 2004.

of the Atyrau – Kenkiyak oil pipeline (in the northwest of the country) is already in operation.

According to the experts view, Kazakhstan's onshore oil production will decrease after 2015 due to the exhaustion of reserves. The actual volume of oil refining in domestic oil factories supplies only 70 per cent of the domestic needs. The lack of oil products is covered by imports, mainly from Russia.

According to the 'State Program of the Development of the Kazakhstan sector of the Caspian Sea', signed on 16 May 2003, not less than 100 million tons of oil will be extracted annually from offshore deposits of the Kazakhstan's Caspian shelf by 2015. This is twice as much of what is extracted today in Kazakhstan. This level of extraction is supposed to be maintained for the next 25-30 years, bringing the extraction of gas for the needs of the country and exports up to 63 billion cubic meters by 2015. Apart from some technical difficulties, the program's vulnerability lies in the weak regulatory base for accident prevention (during offshore oil operations), the absence of sea salvage and rescue service for the elimination of oil slicks.

In connection with the achievements of the above-mentioned program, the construction of the first and the second pipelines will be needed in 2009 and 2012 accordingly.

Gas production, as well as oil one, is situated in the west of Kazakhstan. The main volumes of gas consumption are in other regions of the country. Domestic consumption currently exceeds the volumes of extracted gas. Even with a reduction in gas consumption by 1.5 times over the last 10 years (since 1992), gas extraction satisfies only 60 per cent of the total gas consumption. Additionally, gas is imported from Uzbekistan to the southern regions of the country.

*Domestic
consumption
exceeds the volumes
of extracted gas*

According to the forecasts, gas consumption will slightly increase and stabilize by 2015 to 15-16 billion cubic meters. Production is forecasted up to 70 billion cubic meters by that time, thus the export of natural gas will increase. It is planned that the export of gas will be via Russia.

Karachaganak is the biggest natural gas field in Kazakhstan. The gas production here will increase considerably due to the high pollution levels of the oil fields of the Caspian shelf. In this regard, the Program of Gas Sector Development will increase the capacity of the key export gas pipeline 'Central Asia –

*Kazakhstan
contains about 37
per cent of the world
uranium resources*

Center' by 2010 to 65 billion cubic meters. There are several new projects planned to determine the export gas pipeline routes.

The markets of Russia, Eastern and Central Europe as well as Asia and the Pacific region are prospective for Kazakhstan gas. In order to carry out an effective export policy Kazakhstan intends to promote the gas alliance of CIS exporter-countries. Thus on 7 June, 2002, the Kazakh-Russian JSC KazRosGas was founded.

Kazakhstan contains about 37 per cent of the world **uranium** resources. 70 per cent of the former USSR uranium was produced here. Now the country intends to increase its share of the world uranium market considering the increasing demand for the tablets of heat-producing elements. But the weak point of the uranium industry development lies in the disposal of nuclear waste products.

Two categories of **coal** are extracted in Kazakhstan: bituminous coal and brown coal. The total volume of forecasted coal reserves is estimated at 400 million tons per year. The commercial reserves totals for more than 20 billion tons.

Kazakhstan is characterized by relatively rich **wind power resources**, which potential is hundreds times above modern consumption. The country is situated in the 'wind belt' of the northern hemisphere and the density of the wind potential is 10 MWt/km². The Development Program on wind energy till 2030 provides the projects of large wind power stations (WPS) with the total production capacity 520 MWt. The annual production of energy from these WPS can be up to 1.5 billion kWt/h.

The Dzungarian gate is the most perspective region in terms of wind energy use. With the support of the UNDP in Kazakhstan the wind potential in the Dzungarian gate and Shelek corridor in Almaty oblast, southeast Kazakhstan, has been examined. With partial financial support from the Global Ecological Fund the project of the first wind plant, with a capacity of 500 kWt, was started. The station total capacity should comprise 5 MWt.

One drawback for the wind power engineering development is in the high cost of the power energy produced by the wind power plant and poor mechanisms of promoting alternative energy sources in the electricity retail and wholesale markets.

Electricity consumption in Kazakhstan reached its peak in 1990 and totaled slightly more than 100 billion kWt/h. After that consumption was constantly falling, reaching a minimum

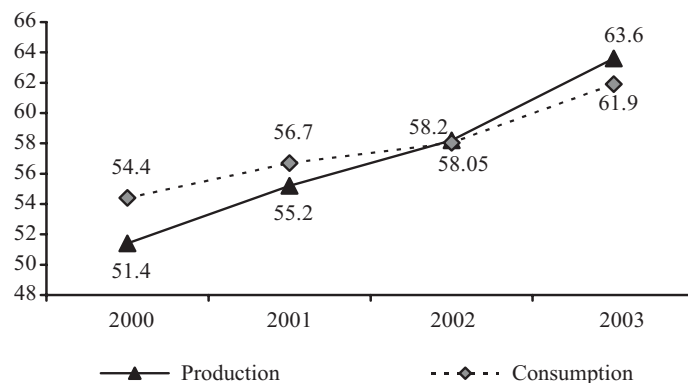
54.4 billion kWt/h in 2000. Since 2001, due to economic growth in the country, electricity consumption had grown by an average of 4-5 per cent per annum.

Providers of electricity in a maximum consumption year (1990) produced more than 83 billion kWt/h and 51.4 billion kWt/h in 2000. In fact Kazakhstan produced about 17 billion kWt/h in 1990 and in 2000 electricity made only 3 billion kWt/h. In 2002 the difference between the production and consumption of electricity was positive and less power was consumed than produced. Kazakhstan delivered to Russia approximately 600 million kWt/h in 2002 and more than 2.3 billion kWt/h in 2003. During these years south regions of the country received electricity from CA republics in a volume 450 and 650 million kW/h.

Since 2001 the largest increase of power energy production was in the western (more than 10 per cent) and northern (about 7 per cent) regions of Kazakhstan. Consumption increased considerably in western and southern regions of Kazakhstan. This can be explained by the development of the western zone due to oil and gas extraction, the stable development of the electricity supply in the southern area and by the recovery of small and medium-scale business in the densely populated southern regions of Kazakhstan.

It is necessary to note that the fundamental volume of electricity (about 80 per cent) is produced in the northern regions. The uneven allocation of generative sources in Kazakhstan requires the implementation of more rational schemes of electricity transmission from the place of production to the place of consumption.

Figure 8. Electricity production and consumption, kWt/h



Source: the Agency of Statistics of the Republic of Kazakhstan

At present the extension of transmission facilities with 0.4-1,150 kWt voltage is more than 400 thousand kilometres. About 30 per cent of them are transmission facilities with 35-1,150 kWt voltage. Electricity networks provide an uneven distribution of power, putting consumers, regardless of where they live, in the same conditions.

To increase the efficiency of power resources, the addition of transmission facilities North – South is currently underway. The implementation of these transmission facilities will allow a more effective use of the energy potential of North and Central Kazakhstan owing to the transmission of cheap electricity from the Ekibastuz field to the south of Kazakhstan and CA countries. Later this connection (North – South) can be used for the transmission of cheap seasonal electricity from Kyrgyzstan and Tajikistan HPSs to the northern regions of Kazakhstan and Russia. The development of this electricity supply network will allow building an efficient electricity market between the neighbouring countries, providing a secure and reliable power supply, saving of reserve capacity, etc.

Since 2003 Kazakhstan has been self-sufficient in terms of fulfilling domestic power requirements. This has resulted firstly in the launch of the main transmission facilities in 2000, connecting the energy-deficient South Kazakhstan with the power generating north, with more than 50 per cent of the country's energy sources. Secondly, there has been an improvement to KOEPEM's methods of tariffs on the services of national electricity network operator KEGOC, which stimulates the transportation of energy to more than 600 km. The increase in annual transportation volumes of cheap power energy to the south requires the increased capacity of transmission facilities North – South undertaken with the help of an external loan. The weak point of the project is the increasing instability of the energy distribution in the north of the country.

With the establishment of North – South transmission facilities in 2000, the energy networks of Russia, Kazakhstan and other CA countries were synchronized. In addition to market reforms in Kazakhstan and Russia, the similar market of electrical capacity and energy is stabilizing. Integration of the markets of the two countries is planned.

The presence of trans-boundary rivers issues in the south of the country requires active measures from the Government of

Kazakhstan. Accelerating hydro-electric power station projects jointly with the neighbouring countries needs to be solved as well.

Environment

Kazakhstan is a country with unfavorable ecological conditions. The country's landlocked, the trans-boundary character of water and air streams make the territory vulnerable to pollution from the outside.

Environmental problems include¹⁶ *degradation of the land*: 66 per cent of the territory is subject to desertification. According to preliminary calculations, the damage from degradation of the pastures, loss of income through the erosion of irrigated land amounts for 300 billion tenge.¹⁷

The problems of *deficiency, pollution and exhaustion of water resources* are extremely critical. Kazakhstan takes the last place among the CIS countries on water supply. Superficial waters are subject to physical, chemical and biological pollution. Water intensively polluted by the mineral-mining enterprises, the chemical industry, the building-materials industry and city municipal services.¹⁸

Both the *Aral and Semey regions* are classified as zones of ecological disaster, as there has been damage to natural ecological systems; flora and fauna degradation; and a significant threat to the health of the population. In the districts bordering the Semey nuclear testing area (85 inhabited localities with a population of 71.9 thousand people) there is a high level of oncology diseases, blood supply system illnesses, birth defects among newborns, effects of premature aging and mortality of population. In the Aral zone (178 inhabited localities with a population of 186.3 thousand people) there are high levels of gastrointestinal tract illness and anemia, especially among women and children, child mortality and congenital pathology.

Air pollution in cities remains a big problem, in spite of the relative stabilization of emissions of polluting substances from 1995 to 2003 (at a cost of 3.5-3.6 million tenge). The problem

Environmental problems include¹ degradation of the land

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Kazakhstan takes the last place among the CIS countries on water supply

¹⁶ The Concept of Environmental Safety of the Republic of Kazakhstan., Almaty, 2003.

¹⁷ The United Nations Convention against Desertification. – 1997.

¹⁸ The Concept of water sector economy and water-economic policy development of the Republic of Kazakhstan till 2010.

of air pollution is linked to emissions from the non-ferrous metallurgy industry, heat-and-power engineering, ferrous metallurgy, oil and gas industry and transport. Ten cities, which are considered to be the most polluted, include Ridder, Shymkent, Ust-Kamenogorsk, Karaganda and Almaty. Pollution has had an adverse effect on the health of the population and the environment. On average, there are 163 kg of various chemical compounds per inhabitant thrown out each year. According to the specialists, the negative effects from air pollution for the health of population costs up to 125 billion tenge each year.¹⁹

The problem of the reduction in biological diversity and natural reserve areas for the preservation of endangered species remains urgent. The area of specially protected natural territories with a strict regime of protection is still insufficient (only 0.4 per cent of the country's territory). There is an urgent need to protect forest resources, which are dwindling as a result of unauthorized felling and forest fires. Forest rehabilitation fell 7-8 times in 1996-2003 compared to 1992.²⁰

The accumulation of waste products is a national problem. About 22 billion tons of waste products are accumulated in the country, 6.7 billion tons of which are toxic and causes pollution of superficial and ground waters. The annual growth of waste products is about 1 billion tons.

***The annual growth
of waste products is
about 1 billion tons***

As a result of longstanding activity of factories that accomplished geologic exploration, extraction and reworking of uranium ores, wastes of 118 radioactive and non-conditional ores appeared. They occupy the territory of 61.4 thousand hectares with the weight about 50 million tons. Radioactive background of those wastes (with activity of more than 50 thousand Curie) varies from 35 to 3000 microroentgen per hour. Kazakhstan's medium radioactive background, according to the assessments, is 2-3 times higher than the average one.

Each year the volumes of *solid domestic* waste increase by 13-15 million cubic meters and this exacerbates the sanitary-epidemiological situation. There is a need in addressing the

¹⁹ Law of Republic of Kazakhstan *On atmosphere air protection*, 2002.

²⁰ Law of Republic of Kazakhstan *On especially protected territories*, 1997.

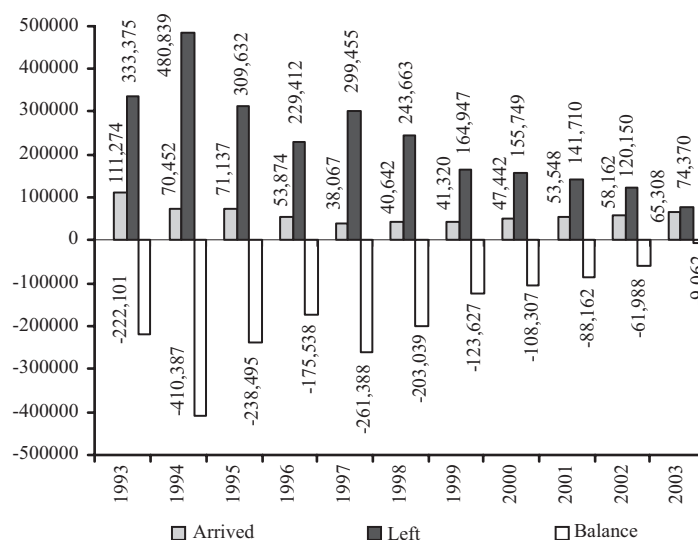
problem of processing, utilization and neutralization of waste products, some components of which are valuable raw material.²¹

One way to tackle national environmental problems, along with the activity carried out within the scope of the Kazakhstan's Long-term Strategy 2030,²² is the implementation of joint projects between nature protection departments and CA organizations.

2.3. Migration

With the collapse of the USSR and the opportunity for ethnic groups to return to home country in Kazakhstan and other CIS countries, the character, rate and direction of migration changed. The 1999 census showed that the population's number had decreased by almost 1.5 million people since 1991.

Figure 9. Migration in Kazakhstan, 1993-2003



Source: data of International Organization for Migration Mission in Kazakhstan http://www.iom.kz/rus/migr_main.php

²¹ The RK Environmental Protection Minister's Report for 2003.

²² The long-term strategy of the development of the Republic of Kazakhstan till 2030, section "Ecology and natural resources-2030", 1998.

To control migration in Kazakhstan the following legal acts were passed: The Law on Migration of the Population (1997); the Law of the Republic of Kazakhstan on the amendments into the Law on the migration of population (2002); The Concept of migration policy of the Republic of Kazakhstan (2000); «The Program of migration policy of the Republic of Kazakhstan for 2001-2010» (2001), which provides measures for the implementation of the migration policy (especially regarding the repatriates), the project of the Program on the demography and migration policy of the Republic of Kazakhstan for 2005-2010, and some international documents such as the Convention on a Refugees status (1951) and the Protocol regarding the Refugee status (1967., ratified in 1998).

Currently the population flow-out has decreased due to improved economic conditions, political stability and fewer social problems. According to the Agency of Statistics of the Republic of Kazakhstan data in the first quarter of 2004 the index of external migration was favorable. The migration balance was 2.5 thousand people compared to –2.9 thousand people in the first quarter of 2003. The favorable balance was achieved owing to the return of Kazakhs from other countries.

The transparency of Kazakhstan's borders with adjacent CA states, the absence of a visa regime, efficient border control as well as bilateral agreements on the migration control attract illegal immigrants to the country.

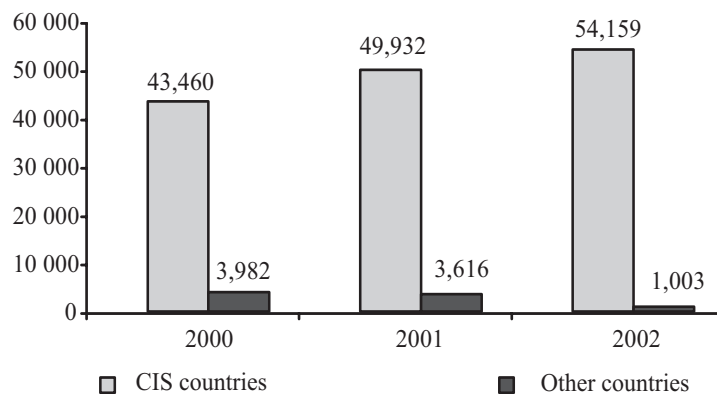
There are two types of illegal migration:

1. Foreign citizens arrived illegally (generally from Kyrgyzstan and Uzbekistan) stay in Kazakhstan and become involved in some business activity. According to data of the migration service department of the Ministry of Foreign Affairs, about 80-120 thousand citizens from Kyrgyzstan currently work in Kazakhstan. They are largely employed in seasonal agricultural jobs, in civil construction and in the markets.
2. The country is used as a transit penetration corridor to Eastern Europe for citizens from unstable economies and military-political regimes such as Afghanistan, Sri-

Lanka and Somalia. Their route lies from Pakistan and Afghanistan to Europe via Tajikistan, Kyrgyzstan, Uzbekistan, Kazakhstan, Russia, Belarus and the Ukraine.

In 2003 there were approximately 64 criminal cases concerning illegal migration. 23,750 foreigners were officially reprimanded for transgression of rules for residence in Kazakhstan and about 17,000 people were expelled from the country.

Figure 10. Immigration to Kazakhstan 2000-2002



Source: the Agency of Statistics of the Republic of Kazakhstan

The inflow of labor migrants to Kazakhstan is directly linked to economic conditions (see Figure 10). Labor migration streams are concentrated in border areas and more prosperous regions. The Government sets an annual quota on foreign labor force, which is currently 0.21 per cent of the economically active population of the country (16.5 thousand people). According to the Interdepartmental Commission under the Government of Kazakhstan on the struggle against human trafficking, today 15 thousand foreign workers are officially stay in the country.

The basic problem is that Kazakhstan faces the so-called 'brain drain'. Highly educated people in working age leave the country. The predominance of the labor force export over its import is typical. The overwhelming majority of those who arrive into the country from other countries are employed in unskilled work (shuttle business, individual construction and agricultural sector). This reduces the quality of labor resources. The number of

Kazakh repatriates does not compensate for the diminution of highly-qualified specialists.

The decline in the number of qualified specialists over the last few years threatens future stable economic development.

2.4. Investment

The influx of direct investments remained high with regard to the implementation of large projects by foreign investors in the oil and gas sector. The gross influx of foreign direct investments (FDI) for 2003 was 4607.6 million US dollars and it is the highest for the 10 year.

The main part of FDI is accounted for by oil and gas production – 45.9 per cent

Table 9. Foreign investments according to economic sector, million US dollars

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Agriculture	0.0	0.0	0.0	0.0	0.0	3.4	0.3	3.8	5.0	2.4	1.6
Industry:	966.2	468.8	717.3	1,411.5	1,824.8	733.5	1,594.92	3,323.7	3,765.4	2,974.6	3,256.3
Construction	0.0	6.9	1.3	4.4	3.3	2.4	2.6	12.3	31.0	40.8	50.6
Trade	0.0	0.5	6.0	20.7	23.6	28.2	24.6	46.8	63.6	103.2	164.1
Hotels and restaurants	0.0	0.3	0.4	9.8	13.2	13.6	5.0	10.1	25.3	11.8	7.4
Transport	0.0	0.0	0.5	7.6	0.0	3.0	16.1	86.1	147.9	91.5	73.3
including:											
Pipelines	0.0	0.0	0.0	0.0	0.0	2.5	15.7	74.5	125.0	54.9	47.2
Communication	0.0	6.1	17.8	3.4	8.5	4.3	4.3	2.3	13.2	3.7	2.4
Financial activity	5.7	12.2	8.4	3.2	20.6	86.9	39.5	29.9	44.8	11.8	52.7
Real estate	55.3	150.7	131.7	212.5	105.0	356.6	163.6	257.5	454.5	845.6	995.1
State administration, Education, health care and Social services	0.0	0.0	1.8	0.6	107.8	1.0	1.3	5.6	6.0	13.4	4.2
others	244.2	14.2	99.1	0.0	0.0	0.0	0.0	3.1	0.0	0.0	0.0
Total	1,271.4	659.7	984.3	1,673.7	2,106.9	1,232.8	1,852.12	2,781.2	4,556.6	4,098.7	4,607.6

Source: Statistic bulletins of the National Bank of RK

Investments into the oil and gas sector had a considerable impact on the distribution of the influx of investments to other economic sectors. The main part of FDI is accounted for by oil and gas production – 45.9 per cent. The chemical industry did not attract foreign investors: FDI into this industry totals 6 million dollars or about 0.1 per cent of the total investments volume. In comparison, in Russia this sector received investments more than the fuel and energy sector and accounted for up to 5% per cent of the total volume.

The investments recovery of recent years is linked to the use of own resources to start up enterprises

The investments recovery of recent years is linked to the use of own resources to start up enterprises. The own resources of such enterprises in the middle of the 1990s was 4-5 per cent, in 2003 – about 56 per cent of investments into fixed capital. It demonstrates a significant improvement of industry condition and a high motivation for enterprises develop their own business.

On 20 May, 2004 the International Rating Agency Standard & Poor's ranked Kazakhstan on investment level. Now Kazakhstan is the leading state in the CIS with investment rating from two international rating agencies. In September, 2002 the International Rating Agency Moody's Investors Service raised the sovereign rating of Kazakhstan up to investment level.

*The International
Rating Agency
Standard & Poor's
ranked Kazakhstan
on investment level*

At present Kazakhstan business is among the active investors in the CIS countries.

2.5. Education, innovations, mass media and language

Education

Kazakhstan has inherited the soviet education system, which is characterized by a well-developed network of educational institutions, high standards of child and youth education and almost 100 per cent literacy of the adult population.

As a result of the reforms of the 1990s, the education system has changed considerably. The private sector has appeared in education (schools, colleges, institutes of higher education), budget allocations have reduced, and the quality of education have declined. The last data on the education in Kazakhstan proves these statements. The number of children in preschool education is low (19.1 per cent – the same level as in 1963) and there are significant regional differences in access to preschool programs. Only a third of handicapped children attend special education.²³ Only 12 per cent of professional school graduates and 16.5 per cent of college graduates find jobs.²⁴ Over the last three years a third of school graduates get minimal marks in tests.²⁵ 251 out of 296 thousand teachers of primary and secondary education need to improve their skills.²⁶ The situation is still critical, as for several years no money has been allocated from the budget to solve these problems.

²³ The State Program of education development in the Republic of Kazakhstan, 2005-2010, Astana, 2004.

²⁴ Education and science of the Republic of Kazakhstan: from congress to congress. Astana, 2004, p. 38.

²⁵ Ibid, p. 42.

²⁶ The State Program of education development in the Republic of Kazakhstan, 2005-2010. Astana, 2004, pp. 66, 91.

Table 10. Budget expenditure on education, in % of GDP

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
												(E)*
2.1	4.7	3.2	3.5	3.4	3.4	3.0	3.9	3.3	3.2	3.2	3.3	3.2

(E – estimation)

Source: 1992-1999 – UNDP (2002) United Nations Millenium Development Goals in Kazakhstan, p.26.,
2000-2004 – Quarterly predictions, Almaty, 2004, No.1. (06).

The Government has started to reform the education system and some strategic documents have been approved (State Program for the Development of Education in Kazakhstan for 2005-2010, the Education System Development Conception by 2010, and the Strategy for the Reform of Education in Kazakhstan by 2010). These documents form the basis for a long-term educational policy. These documents, along with *The Constitution of the Republic of Kazakhstan*, 1995, that guarantees free secondary education and equal access to a professional one, the Law of Education in the Republic of Kazakhstan, 1999; international documents, signed by Kazakhstan (*Education for everybody* 1999, The Lisbon Convention on recognition of qualifications, regarding higher education in the European region 1997), provide a common approach to educational reforms at national and local levels.

One of the problems, which require international cooperation is the problem of reciprocal diploma acknowledgement. It is the subject of mutual interstate agreements and procedures. In 1998 Kazakhstan signed an agreement on mutual recognition and equal standards of education and degrees with Belarus, Kyrgyzstan and Russia. In accordance with this agreement, diplomas from participating countries are automatically recognized. However, there are many cases when diplomas from Kazakhstan are not recognized by employers in Russia and other countries. Therefore there needs to be an international accreditation of the higher education institutes and their programs. During the last three years on the initiative of CAMAN (Central Asian Foundation for Management Development) the representatives of Central Asian business-schools have participated in an international experiment on the accreditation of educational programs. The transition in

accordance with the reform of education on a three-stage model, bachelor degree, masters degree and PhD, is directed towards international recognition of diplomas. Qualifications are now internationally recognized and steps are being taken for the same to be true for diplomas.

Consequences of the economic crises of the transition period have led to a considerable reduction in the volume of scientific research and the number of researchers. From 1993 to 2003 the total number of researchers has reduced 1.8 times with the most considerable reduction in applied science (42 per cent) and academic science (95 per cent).²⁷ Scientific institutions, including the Kazakhstan National Academy of Sciences, have been repeatedly reorganized due to the absence of a long-term strategy, which also caused demoralization and loss of researchers.

Over the last decade investment into research was significantly lower and in 2003 was 0.26 per cent of GDP. According to experts, if the share of budget expenditure on scientific development over the next 5-7 years is less than 1 per cent of GDP, there will be a complete loss of the national scientific and technical potential. Despite these forecasts, the growth of GDP and improvement of the economic situation in the country show no signs of increased expenditure in science.²⁸ In 2003 The Strategy for industrial-innovation development of Kazakhstan for 2003-2015 was approved. The goals of the program include use of scientific research, development, and assimilation of new informational technologies, thus focusing on high technology development.

Innovations

The integration of Kazakhstan into the world economic requires the development of high technology to compete in export markets. Despite favourable economic growth provided by export-oriented raw materials, Kazakhstan's technological gap threatens to turn it into a raw materials-producing appendage of the leading countries.

High incomes from the oil sector gave the government the opportunity to invest budgetary funds through development

From 1993 to 2003 the total number of researchers has reduced 1.8 times...

If the share of budget expenditure on scientific development over the next 5-7 years is less than 1 per cent of GDP, there will be a complete loss of the national scientific and technical potential

²⁷ Scientific and technical potential of the Republic of Kazakhstan: 1993-2003., Astana.

²⁸ Ibid.

institutes (JSC National innovative fund)²⁹ into innovative projects, and define the strategy and direction of innovative activity. Kazakhstan has good results in biotechnology and nuclear technology.

Institutes of higher education and scientific-research institutes are not involved in this innovative process. Against a background of high economic growth the volume of budgetary funds for science in 2003 reached 5.5 billion tenge, 0.12 per cent of GDP, the same level as in 1991 (Table 11).

There are no mechanisms for interaction between science and business and the problem of commercialization of fundamental research remains critical. The strategy of the industrial sector is not focused on innovative development and does not make use of the results of domestic research and developments. Organizational questions and the creation of technology parks caused heated discussions in the scientific circles, as before the latter were not involved in the decision making process.

Work on training highly qualified managers has not been properly established. The questions of training middle level managers have just been included into the State Program of Development of Education by 2010.

Table 11. Budget expenditure on research,
% of GDP

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
0.12	0.20	0.27	0.21	0.18	0.15	0.12	0.14	0.07	0.07	0.08	0.10	0.12

Source: Science in Kazakhstan, Almaty 2004.

*The volume of
budgetary funds for
science in 2003
reached the same
level as in 1991*

The Government is developing the project of the Conception of National Innovative System creation. The main goal of this is interaction between the scientific sphere, enterprises and the innovation infrastructure.

The absence of control mechanisms for the implementation of innovative projects and the scale of the shadow economy raises

²⁹ The law of the RK dated from July 3, 2002 No. 333-11 “Concerning innovation activities”, defines the basic principles, directions and realization forms of the state innovation policy in the Republic of Kazakhstan.

doubts the efficiency of budgetary funds invested into innovative programs.

Mass media

At present the mass media institution in Kazakhstan has become an independent and highly developed structure. There are about 2,000 mass media, 80 per cent of which are non-governmental. The following table shows the development of mass media in Kazakhstan.

Table 12. Mass-media in Kazakhstan

Type of mass-media	1991	2002
Newspapers	118	1052
Television/radio companies	17	124
Information agencies	0	15

Source: Kazakhstan: 1991-2002, Information-analytic bulletin, Ed by A. Smailov, Almaty, 2002, pp.151-153.

The total circulation of periodicals is more than 6 million. The primary languages of mass media are Kazakh and Russian (87 per cent of the total). In addition, there are newspapers, magazines and broadcasts in Uigurian, Uzbek, English, German, Polish, Ukrainian, Korean, Turkish, Dungan and other languages.

All the national periodicals have their own websites. 6.2 per cent of population of the country are permanent Internet users.

There has been a lack of competitive and efficient non-governmental mass-media providing qualitative information. It is necessary to mention that the principle of freedom of speech is not always observed.

The Government's interest in mass media is to maintain the government order. Thus it finances periodicals from the State budget. Another way the government influences the mass media is establishment of media enterprises different types.

The monopoly of news production and information dissemination, even in the presence of competition, does not truly inform the audience as the information sometimes might be inauthentic.

Opposition periodicals suffer from political and economic pressure. There have been cases of violence against journalists, including aggression, assaults and beatings, illegal detentions

There are about 2,000 mass media, 80 per cent of which are non-governmental

The monopoly of news production and information dissemination does not truly inform the audience

and intimidation. There are cases of initiating proceedings against journalists and newspaper editors for insulting someone's honor and dignity. Such court examinations restrict the freedom of speech and they are a pseudo legal way of punishing disagreeable public figures and opposition mass media.

Weaknesses of Kazakhstan's mass media are:

- Insufficient provision of information to civil society due to a lack of competition;
- Mass-media monopolization;
- Insufficient development of mass media technical resources;
- Loopholes in the law regarding information market regulation and protection of information;
- Minimal involvement in use of Internet network and computer databases;
- The low degree of integration into the world information area.

The influence of Kazakhstan on Central Asian mass media will grow, thus causing an increase of internal problems. There is a need for the democratization of information to create a stable and balanced system of government, society and mass media interaction.

Language

Independence in 1991 meant that Kazakhstan needed to develop a comprehensive language policy. Being a multinational state, it is important to provide equal rights for all of the citizens.

In numerous social discussions there were wide-ranging opinions on this question, from the 'one state – one language' approach to recognition of the necessity for a multicultural, multi-confessional society adhering to the basic principles of tolerance, multi-linguistic approach and the freedom of self-determination.

According to the Constitution of Kazakhstan the Kazakh language is the state language (art.7). It is also written that, in state organizations and local government authorities, both Kazakh and Russian should be used. In addition, the Constitution guarantees the creation of conditions for study and development of languages of the various nationalities living in Kazakhstan.

State policy recognizes a range of cultural and linguistic needs of Kazakhstan's multinational society

Thus state policy recognizes a range of cultural and linguistic needs of Kazakhstan's multinational society, including the need for cultural institutions which work in national languages, strive for their own mass media and education. Laws which have been passed include: The Law of Kazakhstan on Languages, The Law of Kazakhstan on Education, The Governmental program of Functioning and Development of Languages of Kazakhstan for 2001-2010, the Law of Kazakhstan on mass media.

...current attempts to introduce the teaching of 3 languages in the state education system

At the same time Kazakhstan's integration in international relations increases the need for knowledge of English. There are current attempts to introduce the teaching of 3 languages in the state education system (first – native, second – state (Kazakh), and third foreign – (English)). This experiment started in 2004 in a few schools in the country.

...necessary to provide conditions for further development of Kazakh language and give the utmost support to language heritage

At the same time it is important for Kazakhs to keep their language and national identity in the face of globalization. It is necessary to provide conditions for further development of Kazakh language and give the utmost support to language heritage.

In the places of dense habitation of ethnic groups there are schools teaching:

- Uzbek (80 schools – in South-Kazakhstan Oblast and 2 – in Zhambyl Oblast);
- Uigur (14 schools in Almaty oblast and in Almaty);
- Tajik (3 schools in South-Kazakhstan Oblast);
- Ukrainian (1 school in Astana) language.³⁰

There are Sunday schools and cultural centers to familiarize children and youth with the national culture, art, native language and literature. It is necessary to note that there have been problems of a lack of qualified educational materials and textbooks with the setting up of these schools.

Russian was and remains the language of communication for all people and nationalities living in former USSR. This will remain the case in future intergovernmental relations – in the economic, social and cultural lives of the CIS states.

³⁰ Major Secondary Education Indicators for 2003. Astana, The Ministry of Education and Science of the RK, 2004.

2.6. Infectious diseases and health care issues

During the last few years the fundamental medical-demographic indexes such as fertility, mortality and average life expectancy have stabilized. The indexes of life expectancy in 2003 were: 65.9 years for men and 71.5 years for women. Life expectancy for 2003 is given in the Appendix (Table 8). The level of infectious diseases has reduced.

In Kazakhstan the fertility rate has a firm tendency for growth. In 2003 it was 17.2 per 1000 people. The mortality rate is increasing (in 2003 6.7 per 1000 people of population), however the growth of the death rate is also increasing (in 2003 – 10.5 per 1000 people of population compared with 9.7 in 1999). The main causes of death are cardiovascular and oncologic diseases and traumatism. Mortality rate for 1994-2003 is given in Appendixes (Table 9).

The index of infant mortality is still high (15.3 per 1000 live births in 2003).

The index of maternal mortality is declining: from 65.3 in 1999 to 42.1 per 100 thousand live births in 2003. One of the main reasons for maternal mortality in the Republic is the low index of the health of women, which is 20-30 per cent.

Sanitation conditions in connection with the influence of poor environmental factors have an impact on the health of the population, primarily due to infectious, occupational and somatic diseases.

According to WHO, Kazakhstan takes the first place among the CIS countries for the growth of tuberculosis

Preventive, hygiene and anti-epidemic measures have resulted in the reduction of infectious diseases. The Sanitation services have been subdivided with the purpose of preventing the spread of dangerous infections from abroad. Over the last few years quarantine points have been established on the main trunk roads at state border intersections.

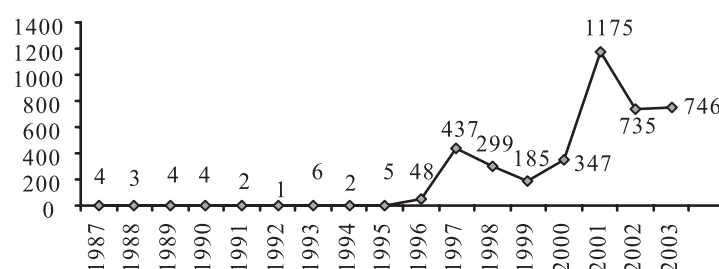
So, during the last 5 years, infectious diseases, which have declined includes measles (by 58.2 times), tetanus (5.0 times), whooping cough (4.7 times) and diphtheria (3.6 times). Kazakhstan is recognized by the World Health Organization (WHO) as a territory free from poliomyelitis. With regard to intestinal infections, the incidence of typhoid has declined by

3.5 times, bacterial dysentery (3.1 times), salmonella (1.7 times), acute intestinal infections and acute viral hepatitis 'A' (1.6 times). Especially dangerous infections are registered in individual instances. One of the most effective measures for the prevention and reduction of the rate of infectious diseases is planned immunization.

According to WHO, Kazakhstan takes the first place among the CIS countries for the growth of tuberculosis: 141.0 per 100 thousand of the population in 1999 and 160.4 in 2003.

AIDS continues to be a problem. On revealing of new HIV-infection cases Kazakhstan ranks fourth among the CIS countries – after Russia, Ukraine and Belarus.

Figure 11. The incidence of AIDS in 1987-2003



According to experts, there are currently about 20-25 thousand people with HIV/AIDS living in the country

Source: data of the Republican Center on prophylaxis and fight against AIDS

On 1 October, 2004, 4531 AIDS patients were officially registered in the Republic and the sickness rate was 28.0 per 100 thousand of the population. According to experts, there are currently about 20-25 thousand people with AIDS living in the country. The epidemic has especially affected Karaganda, Pavlodar, South-Kazakhstan, Kostanai oblasts and Almaty city.

According to WHO recommendations the minimal level of expenditure on health protection should be not less than 4 per cent of the GDP. Per capita expenses for the last few years have seen a positive growth: (in 2001 – 4308 tenge (29 USD); in 2002 – 4911 tenge (32 USD); in 2003 – 6201 tenge (41 USD); in 2004 – 8797 tenge (63.6 USD), but this is still far from the essential level. The increase of finances has not yet yielded the expected results.

Table 13. Budget expenditure on health protection, in % of GDP

1992	1993	1994	1995	1996	1998	1999	2000	2001	2002	2003	2004 (E)*
2.1	2.5	2.0	2.0	2.7	1.9	2.1	1.9	1.9	1.9	2.0	2.1

Source: 1992-2000, UNICEF, MONEE database 2002;
2001-2005 – Quarterly predictions, Almaty, 2004, No. 1 (06).

The problem is that the Government has promised free medical service without any adequate financial support.

The replacement of free medical care by private care is currently happening. Due to the absence of clear guidelines differentiating free medical care and private one, there are high levels of unofficial payments to medical staff. There are no official figures for the consumption of medical care and this factor promotes the growth of the shadow economy.

2.7. Natural and man-made disasters

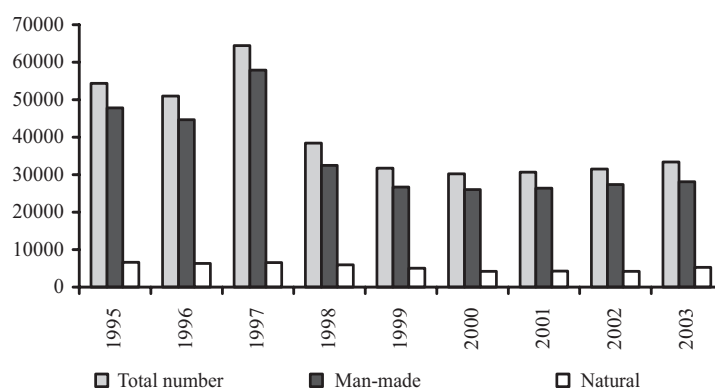
Kazakhstan is a zone of high seismic activity. Only during 2003, 21 earthquakes with intensity greater than 2 points on the Richter scale, including the Lugovoye earthquake with an intensity of 7.5 points, have been registered.

According to statistical data for 2000-2003 the average number of victims, in Kazakhstan, of extreme situations of a natural and techno-genesis character and of road and transport incidents is up from 30 to 35 thousand persons a year, a death-toll – 2.5-3.5 thousand people. The direct cost of extreme situations, excluding global disasters, is estimated to be 2.2 to 3.5 billion tenge annually for the region (see appendix). According to expert estimations, the indirect damage is estimated to be about 15-20 billion and the cost of treating victims – about 3 billion tenge (more than 23 million US dollars).

In Semey Oblast, there were 470 nuclear tests in 1949 and 1989 (including 30 ground based, 86 atmospheric and 340 underground ones). The consequences of those tests include the disturbance of the ecological balance, formation of the Balapan ‘atomic’ lake, emissions of radioactive gases into the atmosphere and a negative influence on the health of the population.

The direct cost of extreme situations, excluding global disasters, is estimated to be 2.2 to 3.5 billion tenge annually

Figure 12. Emergency situation and accident dynamics, 1995-2003



Source: <http://ns.emer.kz>

The UN is actively involved in Kazakhstan's attempt to avert natural disasters and is responsible for international cooperation in the field of protecting the population from natural and techno genesis accidents. This includes the Office on Coordination of Humanitarian Affairs (OCHA), the UNDP, the WHO, the World Meteorological Organization (WMO), and High Commissioner for Refugees. So, within the framework of the UN-declared International Decade on the reduction of the influence of acts of nature, the Emergency Agency of the Republic of Kazakhstan together with the UNDP and the Government developed a "Plan of Preparedness for natural disasters".

The Emergency Agency closely cooperates with the Asian Center on Reduction of Dangerous acts of Nature (Kobe, Japan), and the country can count on humanitarian help from foreign experts in case of emergency situations, especially earthquakes.

Kazakhstan has an opportunity to get help in case of emergency situation from International Federation of the Red Cross and Red Crescent through National Commission that closely cooperates with the Emergency Agency. Besides, Kazakhstan signed bi- and multilateral agreements with the CIS countries on cooperation and interaction on prevention and liquidation of extreme situation consequences. The level and depth of cooperation achieved, helps the Agency to rely on wide humanitarian aid of foreign countries in case of a natural or man-made disaster.

...according to the Russian Ministry of Internal Affairs, 93 per cent of marihuana, 85 per cent of hashish and 78 per cent of opium comes to Russia through Kazakhstan

In Kazakhstan there are 267 sites of water contaminated with radioactive pollution from radium and thorium at a rate of 100-17,000 mkr/h. The total number of inhabitants exposed to radioactivity reached 100 thousand people. In southern Kazakhstan, northern Kazakhstan, Kokshetau, Karaganda, east Kazakhstan and other areas, there are more than 700 natural sites with high concentration of radionuclides with a total area of of 304 thousand square kilometers.

The development of oil-and-gas deposits has resulted in several oil spillages, thus damaging the ecosystems of the Caspian Sea area. The «National Plan on the Prevention of Oil Spills» was implemented in 2001.³¹

2.8. Drugs trafficking and crime

The situation, concerning the illegal circulation of narcotics and psychotropic substances, is characterized by the following tendencies:

- An increase in the number of drug addicts for the period 1999-2003 by 28 per cent (from 37,000 up to 47,000);³²
- A decline in the level of drug-related crime (2001-2003) is only possible through changes in the law and not in the drugs market (there was an increase of extracted narcotic substances amount, which is due to criminal liability).
- There has been a growth in the circulation of narcotics and psychotropic substances as some of them are manufactured in Kazakhstan. From 1992 to 2002 the growth in the volume of narcotics withdrawn from illegal circulation is notable (from 2,750 to 18,668 kg). This figure accounts for 5-10 per cent of the total amount of narcotics in circulation. Practically all heroin seized is manufactured in Afghanistan and is

³¹ The national plan of the oil spillage prevention and appropriate reaction if it takes place in the sea and internal reservoirs of the Republic of Kazakhstan. The Government's provision dated from May 6, 2000, No. 676.

³² The database of the Legal Statistics Committee and special accounts of the State Public Prosecutor Office in the Republic of Kazakhstan. See also: Narcotization of the society: situation, problems, counteraction experience. Almaty: KISI, 2004.

mainly intended for transportation to other countries, primarily to Russia (according to the Russian Ministry of Internal Affairs, 93 per cent of marihuana, 85 per cent of hashish and 78 per cent of opium comes to Russia through Kazakhstan);³³

- The presence in southern areas of Kazakhstan of large natural and artificial plantations of Indian hemp. The total area is about 1 million hectares, 122-130 thousand hectares of which are in the Chui valley, where 4-5 thousand tons of marihuana per year can be made. Morphine, codeine and other natural and semi-synthetic opiates are also manufactured in Kazakhstan.

Of the registered crimes those against property are dominant, account for about 60 per cent

The situation of illegal circulation of narcotics in Kazakhstan is monitored by a number of acts, such as 'The Law of Kazakhstan on Narcotics, Psychotropic Substances, and Measures to counteract their illegal circulation and abuse', 'Medical-social rehabilitation of drug addicts'. Other papers documenting this include the 'Strategy of the struggle against narcotics abuse and narco- business in the Republic of Kazakhstan for 2001-2005' and the 'Plan of priority actions of struggle against narcotics in Kazakhstan for 2001-2005'.

... nine out of ten criminals unemployed

It is necessary to note, that of the registered crimes against property, which accounts for about 60 per cent of all crimes, the majority is connected to theft, with nine out of ten criminals unemployed.

The second place are crimes against public safety and social order (about 10 per cent), most of which are hooliganism. In third place – crimes against the individual (about 9 per cent), most of them are grievous bodily harm, pre-meditated murder and beatings. These crimes account for about 8 per cent, and are mostly drug-related. Especially serious crime accounts for 2.5-2.7 per cent of the registered ones, 20 per cent of which are serious offences, 60.6-62.6 per cent are medium offences and 15-16.7 per cent are less serious offences.

³³ Nezavisimaya Gazeta, February 4, 2002.

There has been a tightening of the issues regarding terrorism and radical political groups that encourage force and repressive structures

2.9. Radical political and terrorist activity

The existence of international terrorism and the presence of radical political groups is determined by international relations and the strengths (or weaknesses) of the states. As it is not greatly involved in international relations, Kazakhstan has no significant influence on international terrorists and radical political groups. That is due to such factors as:

- More effective political and economic reforms than in other countries of the region;
- Formation of a middle class;
- Property and spheres of influence division that satisfies the main elites and powerful groups.

The specificity of a religious situation in the country has great value. The influence of Islam in Kazakhstan is insignificant, because of the weak adherence to Islamic traditions, high rates of modernization that have pushed Islam to the periphery of public life. In Kazakhstan the process of Islamic revival has been much weaker than in other Central Asian republics. The possible exception may be the south of the country, with past activity of some religious organizations, such as 'Hizb-ut-Tahrir'.

However, there has been a tightening of the issues regarding terrorism and radical political groups that encourage force and repressive structures and transfer attention from questions of social and political reforms to questions of security.

At the same time we could not exclude the possibility of activity by some anti-government forces, which may have not only political (for example, the terrorist organizations), but also economic targets (for example, organized criminal groups) and use terrorist methods.

There is a possibility of combining these actors with each other and creation of a network of structures including both legal and illegal elements.

Conclusions

To reduce existing problems in the water sphere it is expedient to carry out joint projects on use and protection of trans-boundary rivers, improvement of water resources monitoring, information interchange on the condition of trans-boundary water, drawing up agreements for their use and protection and

construction of joint water-economic balances. Special attention is to be given to the reduction of the chemical pollution of trans-boundary waters, because the deterioration of the water resources upsets the eco-balance, which has a negative effect on the health of the population.

Regarding the influence of migration, the quantitative and qualitative structure of the economically active section of the population is changing, which affects the economic growth of the republic. Levels of labor migration are constantly increasing but the law norms have not yet decided how to tackle these problems. Currently only highly paid foreign experts in leading branches of the economy constitute the quota.

State policy concerning labor migrants is restrictive and prohibitive. In 1997 the Agency on Migration and Demography (now transferred to the Ministry of Labor and Social Protection of the population) was created. Migration is also one of the functions of the Ministry of Internal Affairs and the Committee of National Security.

Cooperation with other CA republics and the CIS countries is necessary to control and measure migration. Since January 2004 the Government has been negotiating with the adjacent states, in particular Kyrgyzstan, Uzbekistan, Russia and China, to reach agreements on the issue of illegal labor immigrants.

At the present stage of social, economic and political development of Kazakhstan there are favorable preconditions for increasing the efficiency of its transport-transit opportunities.

The successful development of regional barter has also helped to promote historical interrelation of economic systems and significant interdependence of the markets of all the post soviet states.

Current efforts look to the gradual elimination of trade barriers and the reduction of physical and non-physical barriers at customs to facilitate transit through the states. In order to overcome existing barriers it is necessary to take the following measures for each country:

1. To analyze the work of the border services, to reduce duplication of functions and to find more effective border monitoring methods;
2. To simplify customs, boundary and other control procedures. In order to reduce expenses at border

- crossings, the states should consider transferring the functions to separate departments (standards, transport inspection, sanitation, etc) within customs organizations;
3. For the governments of the countries to provide national legislation in accordance with the agreements and accepted obligations within the region, and also with the international conventions;
 4. To create frontier groups to consider the practical questions;
 5. To execute international agreements and conventions. International documents, which cannot be executed for any reason, are to be denounced.
 6. To increase involvement of the public and private sectors in the process of simplifying trade and transport procedures.

Chapter 3. Opportunities for Regional Cooperation in the Areas of Kazakhstan's National Policy

3.1. Governance and Anti-Corruption

The 2010 Strategic Development Plan of Kazakhstan highlights corruption combined with general crime as a serious challenge for the government and society in Kazakhstan. The quantitative side of it is reflected in the following facts:

- Increasing cost of goods and services due to the growing costs of bribery;
- Increasing government debt, resulting from economically inefficient or inappropriate projects, which are endorsed by corrupt officials and which entail reduction of funds allocated for budget funded social programs;
- Worsening economic image of the country and of standards as an effect of the supply of poor quality goods and acquisitions of outdated or unnecessary technologies and equipment;
- Inefficient spending or misuse of budgetary funds;
- Additional resources to reinforce public oversight and supervisory functions.

The most threatening effect of uncontrolled corruption is the “exposure” of the system-based foundation of relations between society and the state. Public indifference and tolerance for corruption, perceived as a behavioral norm rather than a threat to public interests, increases the probability it might become an uncontrollable force capable of destroying the foundation of the emerging constitutional state.

It is necessary to note that the state is making certain efforts to overcome corruption. One of the important steps was the adoption of the Anti-Corruption Law on 2 July, 1998, which defined the major types of corrupt practices, the measures required to prevent corruption and the responsibility of officials by law. The Law has become the principal anti-corruption tool, its enforcement requiring a set of system-based coordinated measures implemented by the Government. For these purposes the Government adopted the 1998-2000 State Anti-Corruption Program, established the State Anti-Corruption Commission, which was later dissolved, as the responsibility for the anti-corruption campaign was delegated to specific central government agencies. The financial supervision bodies were also re-established and the role of the Counting Committee on Monitoring of Republican Budget Implementation was strengthened. Income declarations by civil servants and the introduction of the civil service oath and ethics may be quoted amongst the efforts to reduce corruption. The Government resorted to the assistance of the international financial organizations to prevent corrupt practices associated with execution of the state budget, audit, tax administration and customs services.

However, anti-corruption efforts have yielded no real results. So, in 2001 the 2001-2005 State Anti-Corruption Program was adopted, emphasizing that the adoption of a Law had a positive impetus to countering corrupt practices in the initial stages. At that point the government’s anti-corruption policy, coupled with public intolerance, moved this problem from a stand still. Meanwhile, a number of factors were found to inhibit the anti-corruption process.

1. The enforcement practice showed the need for the adoption of new laws, especially in the legal regulation of economic processes, business activity, as well as the need for a number of laws designed to improve the legal framework for anti-corruption efforts to be amended.

The practice of unsubstantiated reorganizations of government agencies produced the stereotype of “temporaries”, which created conditions conducive to corruption

2. The implemented anti-corruption efforts reduced low-level corrupt practices to a certain extent. However, higher level civil servants, in particular the top and mid levels, were not affected by state-implemented anti-corruption efforts. The practice of unsubstantiated reorganizations of government agencies, random staff replacements to build “teams” for certain leaders produced the stereotype of “temporaries”, which created conditions conducive to corruption. With this in mind, a set of additional interventions aimed at improving the civil service and implementing the principles of hiring and promotion of civil servants, according to their business qualities and professionalism, were required.

3. Initially the anti-corruption efforts by the government agencies concentrated on the effects of corruption. Many efforts were devoted to suppressing certain corrupt practices, rather than addressing their causes. Therefore, the next stage of anti-corruption efforts required large-scale and specific activities designed to identify and narrow down the conditions causing corruption, first of all, in the economic.

4. Weak logistical and technical support, insufficient social and legal protection for law enforcement and for judicial staff, amongst whom was a high level of corruption restrained implementation of the anti-corruption program. Therefore, strengthening the independent judicial system and the law enforcement agencies, directly involved in anti-corruption efforts, became even more relevant.

5. Insufficient trust of civil society to government authorities, poor legal awareness of the public and, as a consequence, a low level of civil society involvement partially caused poor implementation of laws, discouraging the tradition of citizens to exercise their constitutional rights. As a result, the lowered legal immunity led to unresponsiveness to corrupt practices. Consistent public awareness-raising activities would highlight the progress of anti-corruption efforts in the country, publicity about anti-corruption policy and the implementation of special educational programs would contribute to furthering the intolerance of society to corrupt practices. This should encourage the growth of confidence in the institutes of power.

6. There is an evident need for additional efforts to improve the mechanisms of interaction with foreign states and international

organizations on anti-corruption issues. International cooperation should be focused on law making, interaction in law enforcement and partnership-based assistance.

An analysis of the causes of sustained corruption in Kazakhstan, which was incorporated into the State Program, is substantially inconsistent with the experts and international organizations' opinion. According to the Transparency International (2004), Kazakhstan is one of the most corrupt countries (122nd place out of 146 countries ranked). The TI emphasizes that Kazakhstan is one of 60 countries in the world, whose public administration has been overwhelmed by bribery. In 2002 the country was at the 88th place, in 2003 the 100th place and in 2004 it joined the ranks of the most corrupt countries in the world.

According to the TI (2004), Kazakhstan is one of the most corrupt countries

Among the causes of this situation, as the experts³⁴ claim, are, first of all, the decision-making and resource allocation mechanisms available to the officials in their respective areas of competence. Secondly, a relatively weak management of the above plays its role too. It is not an accident that officials are very productive in inventing various rules, instructions, orders and other regulations of their own, which often conflict with the Constitution and the current laws of Kazakhstan.

This problem is aggravated by the lack of complete records of state property and its efficient use. A substantial part of the utility enterprises are either unprofitable, or the local authorities do not ensure timely and full transfers of a part of the profit generated by these enterprises to the budget.

Such a situation is largely attributed to inefficient public anti-corruption policy characterized by the two most significant factors.

Firstly, the position of officials facilitates the growth of corruption. They are actually beyond any control of the representative power, i.e. the maslikhats, as well as the Parliament. This is what leads to irresponsibility of certain representatives of the executive bodies and this is what the anti-corruption policy hopes to challenge.

³⁴ A. Chebotaryov. What is Corruption and how it is Being Countered in Kazakhstan. *The Continent*, February 2004.

The state does not enable anti-corruption activities of civil society and its institutes

...many citizens consider all government officials to be corrupt and, therefore, do not have any trust in them

Another significant factor is that the state does not enable anti-corruption activities of civil society and its institutes, i.e., first of all, public organizations. The latter, even with every desire to counter corruption in certain areas of social life, do not have the appropriate rights or mechanisms to do so. In other words, the republic does not provide broad public support to the state in its anti-corruption efforts. One more factor is the fact that many citizens consider all government officials to be corrupt and, therefore, do not have any trust in them.

Despite rather serious variations in the opinions of officials and non-governmental experts, one may note, that as far as the main directions of the State Program implementation are concerned, serious attention has been paid to the improvement of the anti-corruption legal framework. It is intended that amendments to the effective laws be made in order to produce a more specific list of corrupt practices, to simplify certain licensing and registration procedures, to strengthen social and legal protection for civil servants, to improve the mechanisms used to select the best trained civil servants and to ensure transparency and timeliness of managerial decision-making.

As for corruption prevention in the civil service, there are indications of transparency and simplified provisions in the effective laws and draft laws, entitling government officials to allocate state assets and to grant benefits and privileges on behalf of the state. There is an intention to continue the policy, promoting ethic standards of behavior for civil servants and increasing personal job responsibility. A gradual salary increase for administrative civil servants is also envisaged.

It is also planned to set more stringent legal restrictions, affecting the eligibility of any person proven to have been involved in corrupt practices to hold a position in a government agency or local government institution; to establish a database of business involved in corruption in order to eliminate its participation in government procurement processes or contracts; to ensure the gradual decentralization of functions performed by the governmental agencies, with a step-by-step delegation of their functions to the regions and the private sector. In this connection, implementation of democratic standards in governmental institutes through wider appointments by elections and stronger institutes of civil society are gaining special significance.

Along with the measures designed to ensure strengthening of the state economic policy, law enforcement agencies and the judicial system, there is an intention to develop international anti-corruption cooperation. The activities would include:

- Strengthening cooperation with foreign nations, international and other non-governmental organizations in anti-corruption efforts;
- Expanding interaction of the law enforcement agencies and special services of Kazakhstan with similar agencies in foreign states; implementing joint activities to detect, prevent and suppress corrupt practices;
- Participating in international anti-corruption programs and signing international anti-corruption agreements;
- Involving technical and other assistance of international organizations and donor nations to support the activities of the governmental agencies contributing to anti-corruption efforts in the areas of personnel training and retraining, experience sharing, development of prospective programs, as well as Kazakhstan specialists' participation in international anti-corruption meetings and forums;
- Developing and implementing effective mechanisms to involve international organizations as experts in the process of improving the anti-corruption legislation, providing every possible support to training programs and forums focusing on these issues;
- To speed up national anti-corruption legislation (first of all, of the CIS member states), addressing the presence of government in the economy, introduction of international accounting standards, personnel training, interaction in the process of anti-corruption programs and promotion their development and implementation;
- Analyzing, summarizing and introducing international practices in counteracting the shadow economy and corruption.

3.2. Gender

Gender-specific human development factor in Kazakhstan. Gender inequality in terms of life expectancy at birth and GDP per capita reduces Kazakhstan's HDI, lowering the country's position in the scale of human development. For

80 per cent of the reduction of gender specific human development index in 2000 was attributed to the lesser female wages and 20 per cent to the shorter male life expectancy

The executive branch has not yet realized the importance of gender specific approaches to development programs

instance, 80 per cent of the reduction of gender specific human development index in 2000 was attributed to the lesser female wages and 20 per cent to the shorter male life expectancy.³⁵

According to statistics, the average nominal female wage in all economic sectors in 2002 constituted 61.7 per cent of the male wage (62.0 per cent in medium and large companies and 85.1 per cent in small business).³⁶ Male life expectancy is 10.8 years less than the female life expectancy (60,6 and 71,4 years respectively). Index of human development with account of gender factor for 2003 is given in Appendixes (Table 10).

The Government of Kazakhstan states its commitment to the principles of gender equality. The National Commission on Family and Women's Affairs was established in 1997. The Commission initiated and the Government approved *the National Women's Status Improvement Plan for Kazakhstan* (1997), which was almost implemented by 2002. *The Gender Policy Framework in Kazakhstan* was adopted in 2003, following -up on the ideas and the focus of the previous national plan. However, the executive branch has not yet realized the importance of gender specific approaches to development programs. Dynamics of changing women condition for 1994-2003 is given in Appendixes (Table 11).

Gender issues of national and regional security. The gender aspect of national and regional security under globalization distinctly manifests itself in the phenomenon of trafficking, which is specifically feminizing the migration flows. 4-5 thousand women and girls are taken out of Kazakhstan every year for the purpose of sexual exploitation. Since 2001 the International Organization for Migration (IOM) has been implementing a large-scale regional project targeting the trafficking of women and involving women's NGOs, the police and other governmental agencies. In particular, hotlines (dial 119) focusing on the trafficking of women are established in all oblasts of Kazakhstan.

The political gender specific factors of national and regional security include insufficient involvement of women in decision-making process. Although the latest Parliamentary elections

³⁵ UNDP (2001) *National Human Development Report 2000*.

³⁶ Men and Women of Kazakhstan. Gender Statistics. The Agency of Statistics of the Republic of Kazakhstan. Almaty, 2003, pp. 103-105.

did not change the number of women in the Majilis,³⁷ which amounts 8 out of 77 Majilis members or 10.4 per cent, the actual potential of women-leaders is not being used, creating gender tension and affecting social stability.

Table 14. Women MPs in Kazakhstan's Parliament

Convocation Year	Senate	% of the total number	Majilis	% of the total number	Parliament (both chambers)	% of the total number
1995	8	18.1	9	13.4	17	14.9
1999	5	12.8	8	10.4	13	11.2
2004			8	10.4	13	11.2

The high educational potential of women in Kazakhstan, favorably distinguishing them from the women in other CA countries, to some extent reduces the major **gender specific national security risks**. Therefore, the most serious gender specific security factors combine illegal labor and sexual exploitation related migration, labor and employment discrimination against women, limited access to land ownership, vulnerability of women in poverty, violence against women and children and insufficient participation of women in political life.

Rural women represent a high poverty risk group. Their poverty is caused by such factors as no access to paid jobs, low income from production and sale of agricultural products or no participation in their production. Many children, as well as a reduction of social services, including kindergartens, no participation in decision-making in villages and traditional family style constitute common lifestyle of women in villages.

Thus, given a rather high rate of female economic activity (65 per cent), there is a great share of self-employed (44 per cent of the employed population), which is a sign of inconsistency in the labor market illustrated through the prevalence of women among the unemployed (58.9 per cent in 2002) and the poor (the estimated share of the population with an income below the minimum is 44.9 per cent, among women, and 33.2 per cent among men).³⁸

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self-employed*

³⁷ Lower Chamber of Kazakhstan's Parliament.

³⁸ UNDP (2001) *National Human Development Report 2000. Fighting Poverty for a Better Future*.

Women are at the majority among poor and unemployed

Women currently run only 7.4 per cent of the country's farms. These farms are normally small; they comprise only 2.9 per cent of the agricultural land. As a result, the restriction of women's rights to land ownership and land management makes it complicated to gain access to credits and loans.

Land privatization issues are characterized by a gender imbalance. According to Kazakhstan's Land Code, citizens with special agricultural knowledge and qualifications, as well as practical work experience in agriculture, are entitled to land ownership. Most of the rural women, who do not meet this requirement, were unable to exercise the right to own land.

An increased feeling of vulnerability and uncertainty of women may become a determinant of instability in the state.³⁹ When the feeling of despair and lifelong poverty passes from one generation to another, it gives rise to possible reproductions of a gender composition, consisting of the poor, with women prevailing in the new generation of the poor.

3.3. Community development and conflict prevention

Difficulties of the transition period experienced by the region's population contributed to the emergence of various conflict areas, including inter-ethnic, inter-confessional, social (proprietary) conflicts resulting from both internal and external factors. There is an increased potential for conflict between the urban and rural populations, the latter who are attempting to find work in the cities, as well as the potential intra-ethnic conflict between urban and rural Kazakhs and representatives of various tribes. In the early 1990s an inter-ethnic conflict seemed highly predictable. The following may be listed as some of the motives:

- Differences in the living standards of various ethnic groups; Kazakhs rank fifth or sixth based on the human development index;
- Significant prevalence of Kazakhs in the rural population, which is the most disadvantaged population group;
- Movement of the rural population to the cities contributes to the growth of unemployment and marginalization of substantial parts of the population;

³⁹ UNDP (2002) *National Human Development Report 2002. Rural Development in Kazakhstan: Challenges and Prospects*.

- The trend to establish and develop ethnicity-based politicized public movements;
- Separation of economic niches by ethnic characteristics contributes to interethnic isolation;
- Domination of representatives of the ruling ethnic group in the central and local government agencies;
- Implementation of active policy focused on development and introduction of the state language in social areas produced an ambiguous reaction from various ethnic groups;
- The impact of the geopolitical factor upon the inter-ethnic situation in the country, especially noticeable in the areas close to the borders;
- Lack of significant positive changes in the living standard contributes to the growth of social tension causing inter-ethnic tension.

Interethnic tension reached its peak in the mid 1990s

Interethnic tension reached its peak in the mid 1990s. Since then social conflicts have had a dominant position in terms of their conflict potential level. Sociological surveys conducted by various institutes have proved the growing tension between the strata, which were significantly different in terms of their income levels. The turning point was observed only in 2002, when over half of the nation's population witnessed positive changes in their lives.

Two religious denominations – Islam and Orthodox - have traditionally been dominant in Kazakhstan. There was no open confrontation observed between the two either at the clergy level or among the population. The potential for inter-confessional conflict was previously disguised as an inter-ethnic problem. There is currently an evident conflict between the traditional confessions and those that are new to the country. With the freedom of religion and liberal legislation, the number of confessions has significantly increased (20 in 1989, 30 in 1995, and 49 in 1999). The number of religious groups of non-conventional confessions was substantially higher. According to the mass media, local authorities support traditional confessions; therefore the probability of conflict remains high.

...the number of confessions has significantly increased (20 in 1989, 30 in 1995, and 49 in 1999)

The level of conflict potential is also high between the supporters of traditional and radical Islam. There is no unanimity among

Civil society has been established, it has more than 4.5 thousand NGOs

the experts when it comes to the prospects of religious extremism. Some of them believe that radical slogans are not broadly supported by the local Muslims. Meanwhile, there is an evident growth of their supporters in the economically depressed areas, where the unemployment rate is much higher than the national rate.

In this regard, it is still too premature to talk of the potential of religious confessions to overcome possible regional conflicts, as there are serious challenges faced by Islam and Orthodoxy.

Local communities, along with government, may play a significant role in preventing any type of conflict, be it proprietary, ethnic or religious. According to some experts, there is normally more than one way to solve a problem and no unique solution may be proposed solely by the government agencies. Competition in searching a solution to a problem leads to more rational suggestions. Governmental authorities are less flexible than NGOs. Therefore, the latter can respond to the emerging conflict situations quicker than governmental agencies and it is easier for them to adjust their policy.

Kazakhstan has established its civil society. First of all, it has more than 4,5 thousand NGOs. The Government is taking measures to provide legislative support to their activities. The Civil Forum held in 2003 gave rise to the new model of partnership relations between the “third sector” and the state.

The 2010 Strategic Development Plan for Kazakhstan highlights the need to develop and strengthen NGOs, which reflect and advocate the interests of various population groups and strata. In this regard, it is intended that special legislative acts will be passed to ensure further development of non-governmental organizations, to intensify interaction between the state and NGOs, which will enable them to find solutions to the existing problems faster and more efficiently.

The government plan to provide state grants for socially significant projects may be mentioned as one of the ways of supporting NGOs. Special attention will be paid to supporting and developing youth and children’s organizations in Kazakhstan in order to adequately socialize and address social and economic problems to prevent criminalization as an effect of destructive religious or extremist political ideas.

The Assembly of Peoples of Kazakhstan, established in 1995 as an advisory and deliberative body under the President, may be seen as one of the non-governmental organizations playing a significant role in preventing inter-ethnic conflict.

It currently incorporates 20 national and regional associations and 272 national and cultural associations in the oblasts. 1 out of 20 of these associations is international, 10 are national, 9 are regional and 8 are local. The Assembly has representatives from 34 ethnic groups. The Humanitarian Research Center for International Relations was established with the OSCE assistance. The Center organized 10 international conferences and workshops on harmonization of inter-ethnic relations in CA and prepared 11 reports on the outcomes of interethnic monitoring.

National cultural centers are developing relations with their historic home countries. This process is progressing most actively within the Azerbaijani, Armenian, Greek, Dungan, Jewish, Karachay-Balkar, Korean, German, Polish, Tatar, Turkish, Turkmen and Ukrainian diasporas.

Although there are certain positive examples, it is evident, that the existing network of civil society institutes and their role in conflict prevention is still lacking. In fact, Kazakhstan is currently at one of the initial stages of civil society formation. At the moment there are only few organizations working on conflict prevention. Among them are the NGO "Conflict Prevention Center" (Almaty), which mainly focuses on developing the skills of tolerant behavior in non-standard and extreme conditions and the NGO "Dialogue" (Shymkent), striving to create conditions for an intercultural dialogue. Possibly, the success of these organizations will become an incentive to develop similar NGOs in other oblasts of Kazakhstan.

Conclusions

Corrupt practices are currently a serious system-based indicator, regardless of the measures being implemented by the state. Evidently, the 2001-2005 State Anti-Corruption Program was not a success and it is most likely that the set of measures outlined in the 2010 Strategic Development Plan for Kazakhstan will have the same result.

The content of the administrative reform, under which the committees ceased to be part of the ministries and functions

were divided into strategic (Ministries), executive (a part of the committees) and controlling (the other part of the committees), is the grounds for the distressing conclusions. What is significant here is that the vertical hierarchy remained unchanged, which, in fact, negates the idea of functional independence of the above organizations.

Another important factor is the low level of local community involvement in overcoming these negative trends. The third sector is practically irrelevant here, only stating and analyzing corrupt practices (for instance, the Transparency Kazakhstan). Local communities could also contribute greatly to conflict prevention. However, the traditional institutes, for instance, the Council of the Elderly (Aksakals), lost their value during the period of market economy formation, while the civil society institutes are still too weak to be able to solve such significant issues.

The gender specific aspects of national and regional security are rooted in differences of opportunities, status and roles for men and women in the developing process of country. The most significant gender problems are illegal migration for the purpose of labor and sexual exploitation, including the trafficking of women, vulnerability of women in poverty, violence against children and women and labor and employment discrimination against women.

Chapter 4. Cooperation with the Neighboring Countries and the Role of International Donors

The place of Kazakhstan in international relations, including its foreign policy and security policy, is determined by the structure of modern international relations, which to a certain degree is reflected in official state documents.

The structure of modern international relations is characterized by interaction at four levels:

- Inter-state (sociopolitical and economic situation within the state);
- Intra-regional (relations between countries in the region);
- Inter-regional (interaction with adjacent regions);

- Global (interaction with global powers).

The directions and priorities of foreign policy and international security policy of Kazakhstan are as follows:

- Cooperation within the CA;
- Interaction with the adjacent regions and regional powers (East Asia, Southern Asia and the Middle East);
- Relations with global forces (the USA, Russia, China, the EU).

The official position of Kazakhstan on the international arena and basic long-term priorities and directions of its foreign policy are stated in the Concept of Foreign Policy of the Republic of Kazakhstan (15 March 2001). They are concretized in the annual address by the President to the people of Kazakhstan. In the President's address to the nation on 19 March 2004, Kazakhstan's basic priorities of foreign policy for 2004-2005 were outlined. They are:

- Integration into the world economy (entrance in the WTO, encouragement and support of Kazakhstan business and capital promotion to abroad);
- Industrial-innovative development (the use of advanced international experience, implementation of joint projects with leading foreign banks and companies);
- Multilateral cooperation and security through the consolidation of regional and international efforts (practical implementation of the initiative to consolidate efforts of the CIS countries in the struggle against new challenges and threats, further implementation of goals of the Conference for Interaction and Confidence-building Measures in Asia (CICMA), maximal adaptation of the activities of the Collective Security treaty Organization (CSTO) to changing realities).

The determining role in Kazakhstan's foreign policy plays the multi-vector principle. There are countries and groups of countries with which Kazakhstan has dynamic relations on particular matters. The basic directions of foreign policy in priority order are as follows:

- Working with the EEAC, SCO and Central Asian Cooperation, as well as CICMA and CSTO;

- Russia;
- The USA;
- China;
- CA countries;
- The European Union;
- Turkey and the Islamic countries.

On 31 August 2004, at the Kazakhstan's session of the Security Council, the question of updating the foreign policy of the country was discussed. It has been noted, that the increased political and economic potential of Kazakhstan enables it to pursue out more active foreign policy. It was decided to develop the positioning of Kazakhstan in international organizations and to strengthen foreign economic relations and promotion of the country's business on the world markets.

4.1. Afghanistan

The place of CA in the system of international relations and, primarily, the safety in the region, largely depends on processes unfold in Afghanistan.

The interrelation between CA and Afghanistan provides an opportunity for the latter to enter the region

Some states in the region (Kyrgyzstan, Tajikistan and Uzbekistan) are strongly influenced by the interior processes of Afghanistan and by activity of the sub-state and transnational factors, such as trans-national organized crime, ethnic (sub ethnic) groups, guerrilla and rebellious groups and religious movements. Kazakhstan is affected by international organized crime connected to drug dealing.

Up to 2002 the interior processes of Afghanistan were determined by the CA states, which were responsible for the formation of regional safety structures, including the participation of Russia and China as the powers of an inter-regional level.

The interrelation between Central Asia and Afghanistan provides an opportunity for the latter to enter the region (especially if US operations in Afghanistan weaken links between Afghanistan and Pakistan). It is possible to specify three variants of the situation development in Afghanistan:

- Para fragmentation;
- Renewal of civil war;

- Establishment of a government supported from the outside.

It is most likely that Afghanistan will remain isolated. At the juncture of the 20th and 21st centuries practically all adjacent states were involved in the civil war in Afghanistan to prevent a full victory by the Taliban, leading to the consolidation of Afghanistan as a uniform state.

Being an active participant of the multilateral structures aimed at counteracting threats from Afghanistan (terrorism, religious extremism, drug-dealing), Kazakhstan showed little interest in the situation inside it. This tendency remains. The internal political situation and absence of a functioning economy means that there is an absence of real trade and economic cooperation between the two countries.

Kazakhstan's position on the processes occurring in Afghanistan and around it were summarized in the documents "Conceptual Approaches of Kazakhstan to the Settlement of the situation in Afghanistan" and "The Position of Kazakhstan Concerning Settlement of a Situation in Afghanistan", which were distributed at the General Assembly and Security Council of the United Nations on 27 April and 24 December 2001 respectively.

Kazakhstan recognizes that civil war has transformed Afghanistan into one of the world's largest centers for the manufacture and export of drugs. Besides, it has produced a concentration of huge quantities of arms and the presence of terrorist groups promoting radical ideas in CA. All these factors represent a real threat to the stability and safety of the region and the world community. Afghanistan is considered to be in the process of transitive political formation, the destiny of which almost completely depends on the interests and involvement of external politics.

The precondition of a peace settlement in Afghanistan means the effective elimination of terrorists and their sponsors. Kazakhstan considers that, along with an end of anti-terrorist operations, the world community should offer assistance to the humanitarian situation in Afghanistan on a long-term basis and insist on a comprehensive plan for the restoration of the national economy. During the process of rehabilitation of the country, the actions of the international community should be directed at neutralizing the new threats of illegal circulation of drugs

Kazakhstan has expressed its readiness to offer practical assistance to the international coalition in Afghanistan, especially in terms of economic and humanitarian aid...

and weapons, illegal migration and religious extremism. All international efforts on the settlement of the situation in Afghanistan should come under aegis of the United Nations.

Kazakhstan, approving the results of the Bonn International United Nations conference on the Afghani problem, has recognized the transitive Islamic government of Afghanistan led by Khamid Karzai. On 19 April, 2004 contracts of mutual relations and cooperation were signed between Kazakhstan and the transitive Islamic state of Afghanistan. Kazakhstan recognizes that a choice of an Islamic or a secular form of state in Afghanistan, as well as the choice of a leader, is the exclusive decision of the Afghani people without external intervention. The country has no preference to any one grouping or faction in Afghanistan. Moreover, Kazakhstan is the neutral Central Asian state on the Afghan question.

Kazakhstan has expressed its readiness to offer practical assistance to the international coalition in Afghanistan, especially in terms of economic and humanitarian aid, having offered:

- Foodstuffs, fuel, building materials and other products;
- Creation in Kazakhstan of humanitarian warehouses under the aegis of the United Nations and the international coalition;
- Referral of civil experts to Afghanistan;
- The participation of Kazakhstan's peacekeeping battalion "Kazbat" in the post -conflict rehabilitation period as part of the International Security Assistance Force (ISAF);
- Opportunity for the integration of Afghanistan into the Special Program of the United Nations for the CA Economies (SPECA), aimed at strengthening economic relations between CA states, and economic integration with Europe and Asia. Agriculture is regarded as a priority for the Afghani economy.

During the visit of Khamid Karzai to Kazakhstan in April 2004 it was suggested that Kazakhstan businessmen would take part in the restoration of the Afghani economy, primarily in the field of construction and geological prospecting.

4.2. China

China is more concerned with internal, regional and global levels of international relations than with the CA relations. As a country with increasing international potential, China is not interested in provoking world and regional forces, as well as neighboring states to form an anti-Chinese coalition.

Kazakh-Chinese relations are always legally supported on an agreement basis. Government representatives of both countries unanimously believe in the development of progressive political relations. Official cooperation on the major problems concerning border issues and disputed territories are unequivocally positive. Both countries are striving for the peaceful development of political relations and strengthening of stability in border areas fixed in the Joint Declaration of Friendly Mutual Relations (1993) and the Joint Declaration on the Further Development and Deepening of Friendly Mutual Relations (1996). The leaders of both states pay great attention to the development of good neighborhood relations in the spirit of their mutual cooperation.

By the end of the 1990s there was a steady structure of trade relations between the two countries. Thus the volume of trade is continually increasing. In 2003 China was the fourth largest purchaser of Kazakhstan products (12.8 per cent of the total product export from Kazakhstan)⁴⁰ and the third largest importer to Kazakhstan (6.2 per cent of imported products).

The bulk of Kazakhstan's exports to China (more than 90 per cent)⁴¹ consists of raw materials: black (44 per cent of the total export) and nonferrous metals (copper – 18.7 and aluminum – 17.2 per cent), mineral fuel, oil and its derivatives (13.3 per cent), products of inorganic chemistry and timber. Animal and vegetable exports from Kazakhstan to China are now less than 9 per cent, which does not tap into the potential opportunities of the republic.

The main Chinese imports to Kazakhstan consists of light industry products such as footwear (35.1 per cent of total import amount), textiles and knitwear (19.9 per cent), as well as power and processing equipment (7.4 per cent) and electric machinery (4.6 per cent).

China is more concerned with internal, regional and global levels of international relations than with the CA relations

Regarding the volume of capital investment in the XUAR economy Kazakhstan is the fourth largest investor

⁴⁰ The review on a trade policy of the Republic of Kazakhstan. Moscow: Executive committee of the Commonwealth of Independent States, 2004.

⁴¹ <http://www.china.polpred.ru> Database is given on 2000 year period.

There were approximately 400 Chinese enterprises in Kazakhstan in 2000, engaged in activities of oil sector, agricultural production processing and restaurant business

Inter-governmental mechanisms play an important role in the development of trade and economic cooperation. Commercial and economic relations with China are also developing in many respects due to the inter-regional, frontier, “shuttle” and other decentralized forms of trading. According to Kazakhstan Customs Committee data on the total amount of “shuttle” commercial trade in 1998 reached 2 billion US dollars.

Throughout China, especially in the Xinjiang Uigur Autonomous Region (XUAR), 15 Kazakhstan enterprises are engaged in the following fields: tanning manufacture, construction industry, food sector, and auto servicing. Regarding the volume of capital investment in the XUAR economy Kazakhstan is the fourth largest. There were approximately 400 Chinese enterprises in Kazakhstan in 2000, engaged in activities of oil sector, agricultural production processing and restaurant business. In 1997 the Chinese National Oil Company (CNOC) bought the control share of “Aktyubinskneft” Joint Stock Company.

Kazakhstan does not exploit the full commercial and economic potential of China due to several reasons of inner character (predominantly raw-focused Kazakhstan economy and corruption of bureaucratic machinery). The development of economic cooperation is adversely affected by non-payment, both by Kazakhstan and China, an incomplete transport network and lack of overall investment.

Construction of the pipeline linking western Kazakhstan to western China is in progress and this assists Kazakhstan’s penetration into the Eastern part of Asia and access to its resources. China is over viewing the present project as an integral part of the pipeline system within the whole country. Mutual bilateral relations are important in terms of development of transport communication with special attention given to the Trans-Asian trunk-railway to increase the number of passengers using this service to Alashankou. Also Ljanjungan port, where Kazakhstan’s cargo is processed, is of great value for the cargo transit to third countries. International transportation is of great benefit to China, a significant part of which is carried out exclusively by Chinese carriers. Beijing constantly postpones a decision on the matter of air corridors for use by Kazakhstan airliners as well as the transit of Kazakhstani vehicles through China and other countries of East-Asia.

Kazakhstan-Chinese economic relations are also affected by socio-political problems such as the legal and illegal migration

of the Chinese people, as well as territorial problems and questions on trans-boundary rivers use and the problem of Uigur separatism. The above problems are frequently discussed in Kazakhstan, though both heads of state deny that these problems exist. The question of the territory zones of Kazakhstan directly depends on the Chinese demographic threat (the penetration of Chinese citizens into Kazakhstan). At present the matter of disputed territories is resolved by the “Additional Agreement Concerning the Kazakhstan-Chinese Border” signed on 4 July 1998. The question on the use of trans-boundary rivers (Ili and Black Irtysh) is still under discussion.

China has a special interest in CA as a counteraction to the possible increase of Turkic influence on the inhabitants of the adjacent CA territories and historically connected XUAR. In 1991 when CA states were declared independent, pan-turkish agitation notably increased in XUAR and the idea of creating an Uigur state of «East Turkistan» arose. At present Uigur organizations supporting «the East Turkestan» China branch also have contacts with Uigur Diasporas in the CA states, primarily with that of Kazakhstan. China aspires to prevent the strengthening of separatist tendencies in XUAR as a result of Uigur opposition activity in CA. Therefore the majority of the official bilateral documents signed by China and CA states are based on joint measures against separatism and negative activities throughout the country.

The Government of China is also concerned about the possible growth of Islamic fundamentalism. China would like the CA states to act as so-called ‘buffer zones’ in relations between Russia and China. Besides, China cooperates with Russia in the region, using the mechanism of SCO, originally established to deal with border issues between China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan. At present, this organization is re-directing its efforts to the fight against terrorism, drug-dealing, fundamentalism and separatism and, generally, present cooperation is based on the Russian leadership in CA.⁴² China considers this strategy to be the best guarantee of stability throughout the region and as a tool of influence Uigur rebels in Xinjiang.

China would like the CA states to act as so-called ‘buffer zones’ in relations between Russia and China

⁴² Blank S. The new Russo-Chinese ‘Partnership’ and Central Asia// *Central Asia and the Caucasus Analyst*, August 2000 (16) at <http://www.cacianalyst.org/Headline1.htm>;
Trenin D. The End of Eurasia. Moscow: Carnegie Moscow Center, 2001, pp. 130, 203.

4.3. Iran

Iran's relationship with the CA states dates from the 1980s and 1990s when the USSR started the process of decentralization. Teheran considered the establishing of links with the CA states as a restoration of historical, cultural and religious interaction of peoples. It also saw an opportunity to strengthen Iranian influence in a new geopolitical zone, believing that the disintegration of the USSR, accompanied by the change of political guidelines and a break in developed economic relations, could create an instable zone.

Now Iran's foreign policy concentrates on strategic (ideas of promoting Islamic fundamentalism) and tactical (gradual entrance into all possible spheres of cooperation, with the intention of overcoming its economic isolation) issues. Until the mid-1990s the tactical approach dominated in relations with CA countries, as policy of Islamic fundamentalism propaganda had no future and could have caused a counteraction of the secular society of CA states, thus creating a threat to regional stability. With the elections in 1997 of President Mohammad Khatami this pragmatism became less distinct. The development of a dialogue between cultures, which may be seen as an alternative to a policy of exporting Islam, provided the opportunity to overcome the political and economic isolation of the country.⁴³ At the same time the foreign policy of the country remains a prerogative of the religious leader of the country, Hamenei ayatolla, who represents the extremely conservative wing of the ruling clergy. There is a confrontational mood in relation to the USA and a special position on the Middle East as well as support for Islamic extremist organizations. It contrasts with the position of the Central Asian countries, which maintain the fight against extremist movements and demonstrate gradual development of relations with the USA.

Kazakhstan's attitude to Iran was transformed from contacts (as stated in 1993 in the document of the Ministry of Foreign Affairs of the Republic of Kazakhstan *Foreign Policy of Kazakhstan: A Way of the World*) up to "priority" after relations with Russia, China, the USA, the countries of Europe

⁴³ The idea of Iran's openness and its desire to leave from the international isolation was stated in the President's report at the Special Session of the UN General Assembly in December 1997.

and Turkey (The Concept of Foreign Policy of the Republic of Kazakhstan 2001). Kazakhstan realizes that excessive rapprochement with Iran could cause an undesirable reaction from the West, especially from the USA, which declared Iran a terrorist state. That is why the country is obliged to adjust its level of interaction with Iran.

Teheran considers relations with Kazakhstan as a priority in CA, due to its leading role in trade and economic relations with Iran, as well as mutual understanding on such problems as peace settlement in Afghanistan and Tajikistan. Kazakhstan's disagreement with the anti-Iranian economic sanctions of the USA is undoubtedly significant.

Despite the transition to a market economy since the beginning of the 1990s, Iran faced such problems as insufficient investment volume, low productivity and excessive participation of the state in the regulation of the economy. A serious blow was the sanctions of the USA between 1995 and 2001.

Iran considers relations with Kazakhstan as a priority in CA

There are a number of factors complicating economic relations between Iran and Kazakhstan, such as:

- Similar export structures (Iran's export is dominated by oil – 84.1 per cent);⁴⁴
- Weakness and inefficiency of economic institutes in both countries;
- Principal distinctions in banking systems;
- Competition with Turkey, China and South Korea, which companies offer better and cheaper goods and services.

By developing trade and economic relations with CA, Iran is attempting to solve one of the main problems of its export policy – to increase the export of non-oil goods and reduce the dependence of the economy on the export of oil. Despite the small scale of Iranian trade with CA (in 1999-2000 it comprised 1.96 per cent),⁴⁵ these countries provide a market for Iranian non-oil goods and services, which cannot compete in the world market (automobiles, foodstuff, clothes, household chemical

Iran is Kazakhstan's eighth largest consumer (3.2 per cent), mainly of raw materials...

⁴⁴ M. Shah The progress and difficulties of Iran reforming, Moscow State Institute (University) of International Relations, 2000.

⁴⁵ <http://www.iran.polpred.ru/2002/19.htm>.

goods, engineering - technical services), i.e. 12.2 per cent of Iranian non-oil export.⁴⁶ Iran exports industrial goods and technologies (light industry, building materials manufacture) to Kazakhstan and invests into the oil and gas industry, including the modernization of Aktau port.

Iran is Kazakhstan's eighth largest consumer (3.2 per cent),⁴⁷ mainly of raw materials (wheat, meat, industrial raw materials).

Iran pays great attention to foreign trade due to its advantageous geographical location for the freight transit (including hydro carbon raw material from the Caspian region countries) from CA to the countries of the Persian Gulf and the Indian Ocean. Iran is a participant of the agreement on the creation of a "North – south" transport corridor and is considering participating in the Kazakhstan – Turkmenistan – Iran oil pipeline project. The transit potential is of interest to Kazakhstan but is limited by the US legislation, which threatens the level of Kazakhstan-American cooperation.

The idea of cultural integration, following centuries-old historical and cultural interaction of the peoples of Iran and the CA declared by Iranian ideologists, is not straight-forward. The absence of a common language essentially reduces the chances of spiritual interaction and the idea of the promotion of Persian and traditional Iranian culture is not a priority in CA. However, certain progress has been made in bilateral relations in the field of information interchange, professional training and technical support.

The role of «confessional unity» is also insignificant as the majority of CA Muslims follow all branches of Islam. The more important is the relative weakness of Islamic traditions in modern Kazakhstan with high rates of modernization, which have pushed Islam to the periphery of public life. Any notion of an Islamic revival here is much weaker than in other former Soviet republics of CA, although Iran encourages active participation of the CA countries in the Organization of Islamic Conference (OIC) where Islam is

⁴⁶ <http://www.iran.polpred.ru/2002/19.htm>.

⁴⁷ The review of a commercial policy of the Republic of Kazakhstan. Moscow: Executive committee of the Commonwealth of Independent States, 2004.

the binding factor. Thus, Iran is attempting to politicize and organize economic cooperation.

The aspiration of Teheran to strengthen international recognition of the country as the regional power with legitimate interests in security in the Middle East and Central Asia gathered momentum. The important factor in relations between Iran and Kazakhstan is the Caspian Sea. The Sea draws increasing attention from the West, in particular the USA, which consider this region in the context of its national security as the alternative “of rather dangerous dependence on the Middle East”.⁴⁸ Iran opposes the interest of western companies in the Caspian Sea, whereas Kazakhstan sees western participation as essential help in the development of its power resources. Iran repeatedly accuses Kazakhstan of, having initiated a principle of demilitarization of the Caspian Sea, creating a naval base in the Aktau port area, and the equipment of the military ships employ active cooperation with the USA. The important question for Kazakhstan is to achieve a consensus with the littoral states on a legal regime for the Caspian Sea. The heads of those countries, including Iran and Kazakhstan, would prefer to even out disagreements on this problem. In general the Caspian region represents new trading, transport and power opportunities and, to a lesser degree, reflects the priorities of the security policy.

4.4. Russia

Russia is the one of real priorities and reference points in Kazakhstan’s foreign policy. This is determined by:

- The geographical proximity and the extent of the borders;
- The intensity of economic interaction;
- Historic and cultural connections;
- The high level of Russian language distribution and its role in facilitating the exchange of information;
- The presence of a significant number of Russian people living in Kazakhstan.

The main documents determining bilateral relations between Kazakhstan and Russia are the “Treaty on Friendship, Cooperation

⁴⁸ International Herald Tribune, 11 May 1997.

*...friendly, equal
rights and stable
relations with
Russia are the
major priorities of
Kazakhstan's
foreign policy*

and Mutual Aid" (1992) and the "Declaration on Eternal Friendship and Alliance for the 21st century" (1998). In total there are over 350 contracts and agreements on Kazakh-Russian cooperation. Mutual relations between the two countries cover practically all areas – political, economic, military, scientific, cultural and humanitarian, pointing to the fact that Kazakh-Russian relations are developing steadily and dynamically. President Nazarbayev emphasizes, that friendly, equal rights and stable relations with Russia are the major priorities of Kazakhstan's foreign policy. Similarly President Putin declares that Russia attaches great importance to the strengthening of the Russian – Kazakhstan strategic partnership. The Russian leader is convinced that Kazakhstan is a trustworthy ally playing a powerful role in the CA countries and the CIS. However, there is a fact for some agreements remain only paper-based. Examples include the creation of a transnational joint stock company based on «The Ural automobile plant» and «The Kostanai diesel plant», financial and industrial groups based on the Omsk and Orsk oil refining plants, Pavlodar oil refinery and Karachaganak gas condensate deposits, as well as the financial and industrial groups "Titan", "Aluminium", "Eltex" etc.

The national interests of Kazakhstan and Russia compete in many areas. Both countries maintain the course of preserving common defensive, humanitarian and information policies.

In the field of trade, economic, scientific and technical cooperation the attention is concentrated on:

- The creation of optimum conditions for cooperation for both states;
- The development of industrial, scientific and technical cooperation, direct links between the regions (oblasts) of the two states, including those based on the creation of joint ventures, financial and industrial groups in various areas;
- Continued steps towards the implementation of measures on Common Economic Area (CEA).

Russia and Kazakhstan cooperate in the fuel and energy sector, including joint development of the northern Caspian Sea deposits, interaction in hydro carbonic raw material transit to the world markets, and the electricity industry.

The Declaration on Cooperation in the Caspian Sea was signed between Kazakhstan and Russia in 2000, reflecting common

position on the questions of the sea-bed division, preservation of its bio resources and the natural environment. In 2002 the Protocol on the Agreement on Demarcating the Sea-bed of the Northern Part of the Caspian Sea for the purpose of implementation of sovereign rights for surface management (1998) was signed. This report defines the demarcation of the Caspian sea-bed between Kazakhstan and Russia with regard to rights of its use and states the organization of joint activity on the development of Kurmangazy, Central and Khvalynskoye deposits.

Russia is a key exporter of Kazakhstan's power resources

Russia is a key exporter of Kazakhstan's power resources. In 2002 the *Agreement on Oil Transit between Kazakhstan and Russia* was signed. In 2001 the first section of the Tengiz-Novorossiysk pipeline (CPC) began its operation. In 2001 about 1 million tons of oil were transported via the CPC and in 2002 more than 12 million tons of oil were transported. A total of 29.5 million tons of Kazakhstani oil (in 2001-16.8 million tons) were transported via the Russian pipeline system in 2002.⁴⁹

In 2001 Kazakhstan and Russia signed *the Agreement of Cooperation in the Gas Sector*, and in 2002 – *the Agreement on the Creation of a Joint Venture on Transportation KazRosGaz*. It transported 1.2 billion cubic meters of Kazakhstan gas to Europe and the CIS countries from the beginning of September to the end of 2002. From January to October 2003, 4935 billion cubic meters of gas were exported. It is planned to increase this figure up to 15-20 billion cubic meters a year.

In 2000 the power systems of Russia and Kazakhstan began to work in tandem. The two countries also cooperate in the nuclear sector (manufacturing by Kazakhstan of powders and tablets for two Russian reactors, participation of Kazakhstan in the Russian development programs for technological improvement of nuclear fuel manufacturing, in particular the recycling program for submarine nuclear fuel). The joint stock company "Kazatomprom" employs Russian labor forces to work on the integration of the Kazakhstan uranium industry with Russia's nuclear fuel and energy industry. The joint Kazakhstan-Russia-Kyrgyzstan uranium-mining enterprise in Zarechnoye was created in southern Kazakhstan.

⁴⁹ Here and further all the figures are given according to the Agency of Statistics of the Republic of Kazakhstan.

Great value is given to cooperation on developing international transport corridors, and to the issues related to tariffs for cargo transportation by rail.

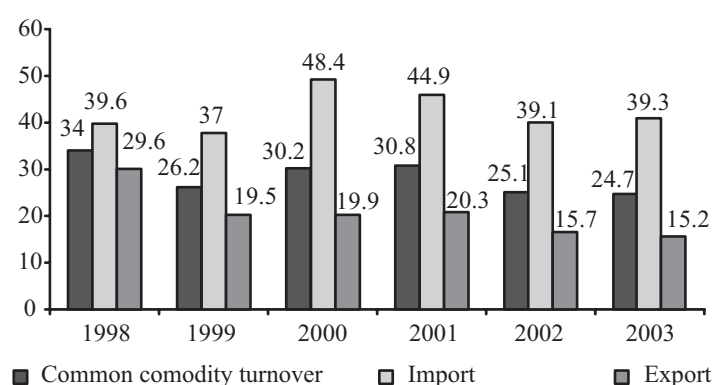
In 2003 Kazakhstan became a participant of the *Agreement between the Governments of India, Iran and Russia on the International "North – South" Transport Corridor (2000)* that would exploit the transit potential of Aktau port as well as the highways of western Kazakhstan. Active measures had been taken to develop the Eurasian transit corridor and the trans-Asiatic trunk-railway Northern corridor. At the same time interaction in the transport sector is limited by:

- Differences in the international transit railways tariffs (transit railway tariffs in Russia are higher than those in Kazakhstan, by 2.5 times);
- Inconsistency of customs policy;
- Poor technical conditions of the transport infrastructure of both states.

The largest part of Russia's imports is machinery, equipment and vehicles

Russia is the main Kazakhstan trade partner. It is the second largest exporter to Kazakhstan and the largest importer of Kazakh products. In recent years there has been a gradual reduction in the proportion of Russia's foreign trade transactions with the country. In 2001 this figure equaled 30.8 per cent and, by 2003, it had reduced to 24.7 per cent (imports reduced from 44.9 to 39.3 per cent and exports from 20.3 to 15.2 per cent).

Figure 13. The role of Russia in exports and imports of Kazakhstan, per cent



Source: the Agency of Statistics of the Republic of Kazakhstan

The main goods exported by Russia are mineral products (66 per cent of the total export volume), base metals and their products (20 per cent), food and raw materials for manufacturing, chemical industry products, machinery and equipment.

The largest part of Russia's imports is machinery, equipment and vehicles (in 2003 – 956.7 million US dollars, or 29.2 per cent). The volume of fuel and energy imports reached 726.6 million dollars (22.2 per cent), the volume of chemical industry production – 539.2 million dollars (16.5 per cent), metals and metal products – 483.3 million dollars (14.8 per cent), food and agricultural raw materials – 220 million dollars (6.7 per cent).

Russia is the fifth largest investor in Kazakhstan. The volume of Russian investments into Kazakhstan's economy was 273.2 million dollars in 2003. Most investments are in the fuel and energy sector. The share of Kazakhstan's investments of the total amount into the Russian economy accounts for about 2 per cent (about 114 million dollars).

In addition to interaction at a state level, there is an economic and trade interaction. For example, the creation of the JSC The Ekibastuz Station SPS – 2 with the participation of Russian company the UES of Russia close to the completion. Together with the Kazakh companies, Rosneft and Gazprom are developing Kurmangazy deposit in the Caspian. Russian companies actively cooperate with Ispat-Karmet (steel manufacture), Kazchrom Transnational company (ferroalloys manufacture), Kazzink (manufacture of zinc, lead, selenium, tellurium, thallium, mercury, bismuth, gold and silver) and the Aluminum of Kazakhstan enterprises.

Kazakhstan and Russia's cooperation in the development of space is a special field of interaction. Russia is the tenant of the Baikonur space center until 2050.

The major component of strategic partnership of the two states on the maintenance of regional security is the development and strengthening of military-technical cooperation. Cooperation of Kazakhstan and Russia in the military-technical sphere operates according to the Contract on Collective Security (1992) and the bilateral Contract and Agreements on Military-technical Cooperation (1994). In 2002 the bilateral Subcommittee on Military-technical Cooperation was created. The same year the arrangement on training of the Kazakhstan military in Russia

The volume of Russian investments into Kazakhstan's economy was 273.2 million dollars in 2003

The share of Kazakhstan's investments of the total amount into the Russian economy accounts for about 114 million dollars

was set up. In November 2002 the Russian side ratified agreements on the rent of the bases in Kazakhstan. As well as the Baikonur space center (the 5th state space center) Russia also rents the Kazakhstan's Sary-Shagan base (separate radio engineering unit) and a base in the Karaganda area (171st aviation commandant's office). However, there are financial issues between the two countries with regard to the rent of the bases. Ecological issues are also problematic. An important factor for the security of the Kazakhstan military was the withdrawal of the Soviet nuclear weapons from the country. It was accompanied by the guarantees of Kazakhstan's security from the part of Russia and other nuclear powers.

At the beginning of the 1990s, with the growth of ethnic consciousness of Kazakh ethnos and the development of national-ethnic statehood, as well as economic crisis, interethnic tension, actualization of the "Russian question" and mass emigration of the Russian-speaking population took place. During this period with Russian population dominating northern regions of Kazakhstan, the factor of the country's possible fragmentation was also considered. By the end of the 1990s, this problem was not that acute. However, Russia still demonstrates responsibility for the Russian-speaking population living in Kazakhstan.

Russia aspires to keep CA as the stable buffer zone, which is the only cordon for spreading "new security threats", to prevent its transformation in a source of such threats.

Basic mechanisms of cooperation, along with bilateral and multilateral structures, include CIS, CAC, EAEC, CEA, SCO, CSTO and CICMA (see the list of abbreviations).

4.5. The role of the international donors

The basic donors of Kazakhstan can be divided into four groups:

- Donors of the UN system;
- The international financial institutions;
- State donors;
- The international non-governmental organizations.

In 2002 donor aid (grants and loans) reached 155 million dollars. 71 per cent of this was given through the international financial institutions, 22 per cent – through the state donors and their programs, 5 per cent – through the United Nations donor system

In 2002 donor aid (grants and loans) to Kazakhstan reached 155 million dollars

The sum of loans constituted 65 per cent, and grants 35 per cent

and 2 per cent – through the international non-governmental organizations. The sum of loans constituted 65 per cent, and grants 35 per cent.

An analysis of the distribution of voluntary (grant) donor help by sector shows that a priority for assistance is democratic and legal reforms, development of institutions and consultation on policy issues in various areas – 47 per cent of all financial aid. The second highest donor help is for the support of economic reforms (41 per cent). 7 per cent contributes to the preservation of the environment, 3 per cent to reduce the poverty rate and 1 per cent to gender questions.⁵⁰

The picture is slightly different for the distribution of loans. Here the priority is given to economic reforms (49 per cent), followed by assistance to management (39 per cent), reducing the poverty rate (9 per cent) and preservation of the environment (3 per cent).⁵¹

The priority in the distribution of loans is given to economic reforms

The **first group** of donors included institutes and programs working within the United Nations framework. One of the most important programs is the UNDP, which started rendering assistance to Kazakhstan in 1993, soon after the entry of the country to the UN. The support by the organization is linked to the priorities of the National Strategy of Development - 2010 and Long-term Strategy of Kazakhstan – 2030. United Nations donors cooperate with Kazakhstan in four strategic priority areas as follows:

- Public safety and human development;
- Management (reforms at national and local levels, reform of the police);
- Democratization and expansion of support to gender programs, human rights, non-governmental organizations and civil society;
- Preservation of the environment.

The **second group** of donors includes the World Bank, the European Bank for Reconstruction and Development, the

⁵⁰ Data is given according to the *Assistance to Kazakhstan*, Almaty: UNDP, 2003.

⁵¹ Ibid.

Due to economic growth in the country over the last years the need for external funding had essentially reduced

Asian Development Bank and the Islamic Development Bank. Kazakhstan became a member of the World Bank in 1992. Due to economic growth in the country over the last years the need for external funding had essentially reduced. For this reason the WB is gradually reducing large credit operations for structural transformation concentrating on investment loans, which are given for concrete projects, policy development and the transfer of knowledge. The World Bank's assistance strategy to the country includes paying analytical and consulting services within the framework of the 3-year Program of joint economic research, with a total sum of about 3 million US dollars. This includes analysis of public health services reform, the fight against AIDS, pension reform and social protection, preparation of the budget, environmental preservation, assistance to non-extractive industries, assistance for the entrance to the WTO and the analysis of poverty. The WB also allocates funds for the improvement of water and forest resources management, environmental preservation in line with the "National Action Plan on Preservation of the Environment and Improvement of Ecological Conditions in the Aral Sea basin". Further programs include the reconstruction of the Uzen oil deposit, water supply projects, clearing of the Nura river, forest protection and analysis of the poverty indexes (together with The Agency of Statistics of the Republic of Kazakhstan, UNDP and ADB).

World Bank activities in Kazakhstan are summarized as follows:

- Training of the agricultural population in business skills (legal, technical and financial issues);
- Maintenance of severe control over public finances (creation of the State exchequer).

The strategic aims of the EBRD in Kazakhstan are the support of the oil and gas sector and the support of small and medium business. The key factor is to improve the management of state enterprises. Donor help is also given for the training of personnel working in small and medium business, privatization and municipal enterprises management, development of the financial institutions other than banks and the maintenance of the investment activity in the non-resource sector.

The strategic aims of the ADB include reduction of poverty through the maintenance of steady economic growth, assistance

to social development and management. Donor help goes to dietary improvement for mothers and children, improvement of living conditions in some least advanced agricultural areas (through the supply of necessary sanitary services and drinking water).

The Islamic Bank of Development (IBD) supports transport projects, projects connected to the supply of drinking water to the population, and development of postal services.

The **third group** comprises the following state donors: European Union (EU) member states, the US and Japan.

Donor assistance to Kazakhstan by the EU is given in two ways:

- Centralized by the EU as an international organization;
- By the EU member states.

Mutual relations between Kazakhstan and the EU are regulated by the Agreement on Partnership and Cooperation between Kazakhstan and the EU members, signed in 1995. The aim of the agreement is to achieve the following:

- Development of political relations through regular dialogue;
- Assistance to trade, investment and harmonious economic relations;
- Intensification of political, trade, cultural and scientific relations;
- Support of reforms in Kazakhstan and strengthening of democratic and economic freedoms.

Donor help from the EU to Kazakhstan, as well as to other new independent states, falls within the TACIS program, which has been in operation since 1991. The basic purpose of the Program is the transfer of knowledge of the market economy functioning and professional skills, which are necessary for its management. Key priorities of the program for 2000-2006 are:

- Institutions, legislative and administrative reforms;
- Private sector and economic development;
- Social consequences of political and economic transformations;

- Protection of the environment;
- Agriculture;
- The development of an infrastructure.

Special attention is given by the EU to the development of the infrastructure (based on the results of the TRACECA project) with the purpose of increasing the competitiveness of the Kazakhstan transit potential. EU involvement in culture and education (the TEMPUS program) is significant. The European Union considers Kazakhstan main partner in the maintenance of more constructive and intensive regional cooperation.

The position of the country-members of the EU in relation to Kazakhstan brings the extension of trade, the use of investment opportunities and access to raw materials. European countries assist Kazakhstan in the training of military staff and providing equipment to the armed forces.

Germany and the UK are the most prominent EU members providing donor help at state level. The special factor in mutual relations between Kazakhstan and Germany is the German Diaspora in Kazakhstan (about 300,000 people).

Germany's donor help aids technical cooperation – the support of reforms and individual business development. The United Kingdom finances various educational programs through the British Council and, through the Department for the International Development (DFID), helps to improve the quality and availability of medical aid, the development of a stable land tenure strategy in the Semipalatinsk nuclear testing area and management of the Nura and Ishim Rivers. Other European states have no serious impact on Kazakhstan.

By 2003, a total of 29.619 million dollars had been allocated to Kazakhstan under the TACIS program. 18.246 million dollars of this was directed to the improvement of management, 5.915 million dollars – on supporting economic reforms, 2.641 million dollars on reducing the poverty rate, 0.939 million dollars on preservation of the environment and 1.878 million dollars for other areas. There is a marked tendency for increased investment in economic reforms. In 2002, 0.939 million dollars out of a total of 1.462 million were directed at supporting economic reforms and 0.523 million dollars at supporting

reforms in public management. There was no investment into other economy sectors.⁵²

Until the second half of the 1990s the US policy in CA, especially in relation to Kazakhstan, became more focused⁵³ and actions have been directed at ensuring that no one power would completely control the region, and the world community would have unimpeded access. The USA pressed towards promoting stable (in the US understanding) regime in Kazakhstan that will be able to pursue the policy less subject to external (non-US) influence. The US long-term goal in Kazakhstan is maintaining a stable, democratic and market focused development through an expansion of its trading potential, access to natural resources, prevention of political radicalism, weapon smuggling and drug trafficking.

The US reaction to the events of 11 September, 2001 has strengthened their presence in CA, but had also aggravated the contradictions it caused. The limited military presence of the USA in CA (at present there are about 700 US soldiers in Kyrgyzstan and about 1000 in Uzbekistan)⁵⁴ without a clear mandate, has caused a change of dynamics at interregional and global levels, but had not affected internal and interstate dynamics.

The USA provides donor help via special state structures in CA. The main structure is the United States Agency for International Development, whose mandate is to widen civil opportunities improve administration and the living standards. Key aims of the USAID activities are:

- Improvement of the conditions for the growth of small and medium-sized enterprises in pilot areas;
- Strengthening of the democratic culture among citizens;
- Expansion of access to qualitative public health services;
- Management of natural resources.

⁵² Data is given according to the *Assistance to Kazakhstan*, Almaty: UNDP, 2003.

⁵³ D. Collins. The basic directions of Central Asian policy of the USA, *Central Asia*, 1997, No. 2 (8).

⁵⁴ The Military Balance 2003/2004, Oxford: Oxford University Press for International Institute for Strategic Studies, 2003, pp. 140, 144.

*International NGOs
are more mobile
than other donors*

For Kazakhstan the most important of the USAID priorities is the support to private business, development of civil society, dissemination of information, improvement of public health services and management of natural resources. Assistance is also directed to the projects on local governance and fiscal reforms. USAID assistance to Kazakhstan in 2002 exceeded all the investments, carried out within the TACIS program in 2003, and totaled 32.56 million dollars.⁵⁵

Since 2002 interaction between Japan and the CA countries has been carried out within the framework of the Charter “Dialogue between Central Asia and Japan”. Areas for cooperation include the following:

- The strengthening of bilateral relations with CA countries;
- Dialogue and cooperation with the region as a whole.

Thus priority goals are (1) support for the improvement of the social and economic infrastructure, (2) help with professional training, democratization and transition to market economy and (3) improving the of the living standards.

The total aid from Japan reached 915 million dollars in 2002 (38 million dollars was grant aid, 71 million dollars was help through technical cooperation, and 807 million dollars was credit). Among the largest projects are the Astana airport, a transport network in Western Kazakhstan and reconstruction of Astana’s water and sewer system.

Included in the **fourth group** of donors working in Kazakhstan are the Soros Foundation Kazakhstan, the Conrad Adenauer Fund, the Friedrich Ebert Foundation and others. The activity of international NGOs in Kazakhstan is regulated by the Law on Non-governmental Organizations (2003). According to this law international NGOs are obliged to publish an annual report on their activity and present this to an official body. This requirement, which is necessary for tax purposes, also allows the activities of the NGOs to be monitored and could provide the grounds for termination of their activity if it contradicts state ideology or threatens national security.

⁵⁵ Data is given according to the *Assistance to Kazakhstan*. Almaty: UNDP, 2003.

In 2001 Kazakhstan determined the list of international organizations which could allocate grants. This was done for the purpose of national security to eliminate channels for extremist activity from abroad. In reality they also create serious bureaucratic obstacles for the activities of NGOs. A feature of NGOs is that they are more mobile than other donors, can change their priorities for activity, act quickly and respond effectively to situations.

Conclusions

The multi-vector policy is a determining factor in the foreign policy of Kazakhstan.

Relations between Kazakhstan and Afghanistan will be of non-significant intensity despite the situation inside Afghanistan. If instability remains, Kazakhstan will conduct a security assessment of the Afghan factor.

Iran represents a significant priority for Kazakhstan, but not the most important one. On the other hand Iran's priority for external relations is not Central Asia or the Caspian, but the Middle East. Its role in Kazakhstan is extremely small in comparison with such partners as Russia, China or the USA.

Analysis of the development of mutual relations between Kazakhstan and China shows that there is a steady structure of relationships, which will not undergo any significant changes in the medium-term.

Despite its complexities, cooperation with Russia in all sectors is, and will remain, a priority for Kazakhstan. Thus the emphasis will be on cooperation:

- In political and military spheres;
- In trade and investments sphere;
- In transport and transit sphere;
- In the power sector.

Donor help from international institutes to Kazakhstan is directed to support reforms and control systems at all levels. Thus the importance of the following areas is paramount. They are:

- Efficient control of the receipts from oil sales; improvement of the business climate and attraction of

investments into branches of the economy not connected to mineral extraction;

- Development of human resources;
- Development and implementation of agricultural policy;
- Improvement of the infrastructure.

It is difficult to gauge the efficiency of the international donors activity in Kazakhstan, because the mechanisms and standard indicators needed for such an appraisal do not exist.

Chapter 5. Political and Institutional Challenges and Opportunities for Regional Cooperation

5.1. Kazakhstan's experience of participation in regional initiatives

Common geographical area, origins, culture and history gave an impetus to the integration process embracing the CA countries

Integration of the CA countries is implemented within the framework of various institutions: the CIS, the EAEC, the SCO and the Central Asian Cooperation Organization (CACO). Integration within the framework of the EAEC, established in October 2000 as a successor to the 1996 Customs Union, is currently the most advanced.

Common geographical area, origins, culture and history gave an impetus to the integration process embracing the CA countries, which underwent several important stages.⁵⁶

The first stage incorporated the period from July 1990 to May 1993, when the countries' leaders focused on developing an integration model framework. They declared the Commonwealth of the CA Republics Model at the Tashkent Summit in January 1993.

The second stage covered the period from July 1993 to December 1995. The agreement establishing the Common Economic Area was signed by the Presidents of Kazakhstan, Kyrgyzstan and Uzbekistan at the meeting in Almaty in July 1994, and the Central Asian Union was established, followed by the Central Asian Economic Community (CAEC) with the membership of Kazakhstan, Uzbekistan and Kyrgyzstan.

⁵⁶ F. Tolipov. Theory and Practice of Regional Integration in Central Asia, *Central Asia and the Caucasus*, –No.2, 2002.

The third stage of integration began in December 1995, when the Presidents of Kazakhstan, Kyrgyzstan and Uzbekistan reached an agreement:

- Upon the venues of economic cooperation and investment policy until 2000, and agreed to establish the Central Asian Bank for Reconstruction and Development;
- To establish a Central Asian Peacemaking Battalion under the aegis of the UN;
- To establish a Council of Defense Ministers of the three nations;
- To establish a Central Asian Parliament.

The fourth stage of evolution of the regional relations in CA was divergent and inconsistent. Serious disagreements existed among the countries with regard to border related issues, that hampered the pace of integration processes. Certain progress was made at the end of 2001 when, at their extraordinary meeting the leaders of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan reorganized the Central Asian Economic Cooperation (CAEC) into the Central Asian Cooperation Organization (CACO). This was done for thereby embarking upon the path of “improving the forms and mechanisms of regional economic integration, enhancing mutual understanding in establishing a common security area and development of joint activities to maintain peace and stability in the region”.

The establishment of the SCO and Russia’s accession to the Central Asian Cooperation in 2004 gave a new impetus to the process. In May 2004 Uzbekistan proposed to establish a common market in CA. The developers believe that the process of integration will be implemented in three stages, the first of which will take 4-5 years. The second step will be to establish a customs union, which will require about 5 more years. The final stage, which is specifically the development of a common marketplace and economic union, will take 5-7 years.

Russia, Belarus and Kazakhstan signed the Customs Union Agreement in January 1995. Kyrgyzstan joined the union in March 1996, followed by Tajikistan accepted to both unions in 1999.

... as a result of the elimination of export customs duties trade with Russia was improved

The Customs Union and the CAEC were designed to reestablish the disrupted production relations and to generally revitalize the economies of the nations. The intention was to withdraw tariff restrictions and to introduce identical trade treatment for the third countries (including a unified customs tariff, common non-tariff regulation measures and unified tax system). By the end of 1999, the member nations of the Customs Union reached an agreement and harmonized 60 per cent of the customs tariffs. As a result of the elimination of export customs duties within the Customs Union, trade with Russia improved, which, ultimately, contributed to the revitalization of Kazakhstan's industrial production in 1999.

The CEA Agreement enforced by the CAEC countries was not sufficiently effective. This attributed to differences in progress with market reforms and lack of a common integration policy supported by real implementation mechanisms, which could unite and bring the CA states together.

Bilateral accommodation and cooperation regimes remained the major way of regulating the relations between Kazakhstan and the CIS countries. The primary advantage was that they enabled the alignment within a single package of arrangements in various areas of interaction, ranging from trade, customs and payment relations to joint border security.

The Customs Union was succeeded by the Eurasian Economic Community. The EAEC Foundation Agreement was signed in October 2000 in Astana, the capital of Kazakhstan, by the Presidents of Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan. The EAEC was founded to ensure intense promotion of the common economic area and coordination of approaches for integration into the global economy and the international trading system.

In May 2003 the UN declared the status of the EAEC as an international organization

In May 2002 Moldova and Ukraine received the EAEC observer status.⁵⁷ In May 2003 the UN declared the status of the EAEC as an international organization.

The major Community objectives include the following:⁵⁸

⁵⁷ An observer may attend open sessions convened by the bodies of the Community, speak at the sessions upon the Chairman's consent, receive public documents and decisions. However, the observer is not entitled to vote when the decisions are being made at the sessions convened by the bodies of the Community and to sign documents.

⁵⁸ EAEC in Questions and Answers, Moscow, 2002, p.12.

- Complete legalization of free trade procedures; establishing of single customs tariff and single system of non-tariff regulation measures;
- Establish common rules for the trade in goods and services and their access to internal markets;
- Introduce unified currency regulation and currency control procedure;
- Create common unified customs regulation system;
- Develop common market of transport services and single transport system;
- Develop common energy market;
- Provide equal rights to education and health services for the citizens of the Community member states;
- Bring together and harmonize national legislation; ensure interaction of the legal systems of the EAEC member states with the purpose of creation of common legal area within the Community.

When acceding to the Community, each of the member nations was interested in addressing its own economic concerns

The EAEC Interstate Council meeting, held in 2003 in Dushanbe, adopted the priority directions for development for 2003-2006, which included the following: establishing a common customs area; agreeing upon the WTO accession terms and conditions; developing energy resources; accelerating the establishment of the Eurasian Transportation Union; establishing a common agricultural market; migration policy and countering drug trafficking.

When acceding to the Community, each of the member nations was interested in addressing its own economic concerns.

Kazakhstan, in particular, was interested in:

- Preserving the markets with the products, receiving necessary goods from member states under duty free arrangements;
- Addressing issues related to efficient water and energy resource use in CA;
- Tapping the transport capabilities of the country;
- Enhancing and expanding mutual relations with Russia.

Dissatisfaction with the EAEC development led to the establishment of another integration organization – the CEA

The timeframes set for the implementation of the objectives identified by the Community were not always followed.

There are a number of factors that may be identified as inhibitors to Community development.

- Level of economic development is different; economies of the member states are currently at different stages of reform and “market advancement”;
- Agreed arrangements are poorly implemented;
- There are inconsistencies inherent to the trade policy and national egoism of the countries;
- There are problems related to agreeing the WTO accession position of the countries.

Dissatisfaction with the EAEC development led to the establishment of another integration organization – the CEA in 2003. Belarus, Kazakhstan, Russia and Ukraine joined this organization.

The main outcome of the integration efforts, contributed by the CA countries, is the adoption of a number of international acts and documents focusing on the harmonization of legislation streamlining foreign trade, taxes, customs, currency, border control, energy, transport and social issues.

A number of important decisions have been made recently to address the issues of efficient water and energy resource use and development of a common energy market. The energy systems of all CA countries are already operating in parallel with those of all CIS countries.

The issue of Tajikistan’s and Kyrgyzstan’s power transit through Uzbekistan and Kazakhstan to Russia had ultimately been resolved. This provides the opportunity to sell a surplus of electricity in the summer time and increase water supply for irrigation purposes during the vegetative period without any disruption to the interests of power engineering. All project participants will benefit from the economic effect of this solution.

In late 2003 the Energy Policy Council meeting in Dushanbe made a decision to intensify its efforts focusing on establishing the Water and Energy Consortium, which was supposed to incorporate Uzbekistan and Turkmenistan. Preparations were

made for a feasibility study for completion of construction of the Sangudinskaya HPS in Tajikistan and Kambarratinskaya-2 HPS in Kyrgyzstan, which would not only allow the provision of additional quantities of cheap power, including export power, but would partially resolve the problem with the efficient water resource use.

The SCO was established on 15 June 2001 in Shanghai. It includes Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan and Uzbekistan. A decisive factor for the unification of the states is the existence of threats and challenges to prosperity, stability and security of the states in the region, primarily, through an escalation of terrorism.

The development of regional integration and cooperation will enable each of the countries to develop its production in the areas of respective competitive advantage. Kazakhstan and other CA countries can noticeably improve their social and economic situation and human development by fostering their trade and transport cooperation, jointly investing in and developing their energy resources and securing their small business development.

5.2. Political and institutional challenges assessment

According to a number of prominent experts, none of the states in the region has managed to find adequate ways to respond to many long-standing intra-regional and country specific challenges and threats. Among them are the problems related to acute water resource shortage with the inherent conflicts, impending environmental disaster in certain areas of CA, unsettled border disputes, internal political instability in each of the states in the region, inter-ethnic and inter-clan tension and radical Islamism ready to rise up should any destabilization occur. There are still serious and dangerous transit challenges and threats originating in the bordering states affecting CA.

One of the serious threats is the rivalry between Kazakhstan and Uzbekistan over leadership in CA. This confrontation is not insignificant, because the volumes of foreign aid to the countries will differ significantly depending on this factor.

Uzbekistan's leadership pretensions are far from unsubstantiated. The country occupies an advantageous geostrategic location, has a population of about 25 million people

Kazakhstan's large-scale initiatives are designed to fortify its prospects for leadership in the region

and affluent natural resources. Uzbekistan is known to be the principal geopolitical partner in the region for the United States; China and Russia are making similar efforts to strengthen their relations with this country.

Kazakhstan, which has attracted over 60 per cent of the total foreign direct investment in the post-soviet economies during the decade of its independent development, does not intend to give up its plan of supremacy in favor of Uzbekistan. Kazakhstan's large-scale initiatives, such as the CICMA and the Forum of the World Religions, are designed to fortify its prospects for leadership in the region.

Confrontation of the countries is aggravated by growing disparities in their economic development. The average annual GDP growth in Kazakhstan in 2001-2003 was 10.45 per cent, while in Uzbekistan it was 3.3 per cent. In addition, Kazakhstan's population in 2003 was only 91 per cent of its population in 1990, while Uzbekistan's population in 2003 was 124 per cent of the population in 1990.⁵⁹ Such developments as the SCO formation, Russia's accession to the CAC and the growing US influence on the countries in the region will, by no means, facilitate the relaxation of tension between the two leading countries of CA. There is obvious evidence of the fact that when Uzbekistan unilaterally closed its border with Kazakhstan, trade between the two countries had reduced, the issue of efficient use of shared water resources had not been resolved and the volume of transit between the two countries had reduced too. Leadership will, most likely, become the key issue in the next few years due to the multi-vector government policy of both countries.

Another similarly important risk for the CA states is the decelerating pace of political modernization and, as a consequence, underdeveloped political parties, an overwhelming prevalence of the executive branch over the representative branch and no open mechanism to ensure rotation of the ruling elite. In fact, the leaders of each of the countries in the region pursue the policy of power retention and reinforcement.

At the same time, all countries typically refer to the impossibility of implementation of democratic reforms. The ruling elite

Important risk for the CA states is the decelerating pace of political modernization

All countries typically refer to the impossibility of implementation of democratic reforms

⁵⁹ S. Zhukov. Small Extractive Material Exporter with Internationalized Assets under Globalization Restraints, *Exclusive*, October 2004, p. 26.

normally claim that the democratic institutes are underdeveloped, as there is no historic precedent; that there is a “special” way to build a democratic society due to the specific mentality of the population in the region; that there are multiple threats posed by the international terrorist organizations, etc. It is becoming evident, that deceleration of political reform, coupled with only partial solutions of social issues, large-scale corruption and marginalization, is fraught with social tension and the growth of deviant behavior.

There are still strong apprehensions in CA societies in relation to the growing importance of Islamic radical movements, though they are outlawed. The threat of mass radicalization of Islam appears to be strongly exaggerated in the region.

According to sociological surveys, conducted both in Kazakhstan and in other countries of the region, condemnation of religious radicalism and fanaticism is characteristic of CA Muslims. The religious institutes are poorly developed in the region, the Islamic legal culture and spiritual roots have disappeared. Growing mass apathy and increasing political inertness is common to all the CA states.

Condemnation of religious radicalism and fanaticism is characteristic of CA Muslims

At the same time, impoverishment of the economically active population, unemployment, growing corruption and crime, as well as extensive manifestations of social unfairness contribute to the growth of extremist sentiments, including religious extremism-related ones. This plays a powerful trump card into the hands of the opposition. President Nazarbayev noted that illegitimate activity of the religious political party “Hizb-ut-Tahrir” is becoming overt. In 2003 about a thousand leaflets were seized in the country and, in 2004, 11 thousand leaflets were seized. According to the President, “the international extremist forces are not giving up their intention to change the constitutional setup and to create an Islamic khaliphate in CA”.⁶⁰

The same ideas are, in fact, underpinned by the situation with disputed territories, the growth of unemployment causing large-scale seasonal inter-country labor migration, and inter-ethnic tension. Given this situation, the vector defined by the radical Islamist organizations may, undoubtedly, become an antipode

Kazakhstan has the best political and economic prospects in the long-term

⁶⁰ T. Izdibayev. The Head of the State warns that religious extremism tries to settle down in Kazakhstan, *The Panorama*, September 3, 2004, p. 2.

of the existing regimes, whose integration initiatives normally yield no results. This is partially facilitated by the exaggeration of these threats to justify restrictions of rights and freedoms in order to receive additional funds from donor-countries.

Potential confrontation of the US, Russia and China, centered on their influence in CA, may be seen as one of the significant risks for the countries in the region. Some analysts believe that the US military presence (the US military are based at Gansi aviation base in Kyrgyzstan and Hanabad aviation base in Uzbekistan) will increase. The American Foreign Policy Analysis Institute recommended to the US Administration to locate its operations base at one of the three airports of Kazakhstan, where the US military are entitled to perform emergency landings (Almaty, Shymkent and Lugovoe) and to establish operations positions at the other two airports. In addition, the analysts suggest starting establishment of closer security relations with Kazakhstan. In their opinion, the country has the best political and economic prospects in the long-term.

Russia is interested in the continued strengthening of its position in CA. In contrast with China, it has additional channels of influence upon the region through the CIS, CAC, Organization on Common Security Agreement and other establishments. The opening of the Russian military base in Kant (Kyrgyzstan), as well as in Tajikistan, is the evidence of the strength of these intentions. A new turning point in the Russian foreign policy in relation to the CA countries was the investment of about \$ 2 billion in Tajikistan's economy. Official circles in Russia consistently emphasize the importance of the SCO in enhancing the stability on the Asian continent as a whole, not just within the territories of its member states. The SCO appears to be an additional channel for Russia to strengthen its position in the region and to improve its relations with China.

According to analysts at the American Center for Strategic and International Studies (CSIS), China is returning to CA as a major player and the SCO formalizes this new reality, thereby confirming Russia's recognition of the fact, that it is not capable of defining the role of the region and its place in the world exclusively all by itself. They believe that, strategy-wise, during the next decade, China will have a more influential role in CA on security and economic issues, which will strongly affect the US political goals in this region. This prospect became more feasible after the SCO

Charter was signed, its Secretariat and the Regional Anti-Terrorism Group were established and the budget of the organization was approved. Attention should be given to the intention of China to initiate accelerated free trade area formation in SCO member states. The 2003 Beijing SCO Ministerial Summit approved the long-term multilateral economic cooperation program. It was suggested that a free trade area will be established by 2020. Variations in trade laws, different levels of economic development, and incomparable economic capacities of the member nations and clashes of economic interests were the serious obstacles to the implementation of integration initiatives in the short term. It is likely that, due to these circumstances, the SCO member states agreed to develop cooperation in such sectors as energy, transport services and environmental protection. There were also clear indications of potential confrontation. For instance, China, Kyrgyzstan and Uzbekistan are lobbying for the reconstruction of the Great Silk Road, namely, building an international corridor, which would connect China with Europe through individual CA countries. Russia is focused on enhancing the importance of the Trans-Siberian Railway. These factors will, clearly, require long negotiation processes to reach tradeoff decisions.

As for the creation of a free trade area, pushed by China, there are several versions.

- China is proposing an option to trade with the SCO member states, to the benefit of China, in anticipation that Russia and Kazakhstan, who are not yet the WTO members, will have to go through a conciliatory procedure in relation to the terms of accession to this organization.
- China is taking this step in view of the growing potential for confrontation in Russia's relations with the leading countries of the world, therefore, the importance of the SCO to Russia is increasing.
- China is pressing towards a prompt strengthening of its influence upon the countries in the region, fearing competition with the United States.
- This is a test of strength, a demonstration of China's intention to dominate in CA.

Each of the four versions is convincing and the reasons for China to put forth this initiative are multi-faceted. In fact, China

started its own game in the region, securing Uzbekistan's support thanks to its multi-million investments into the country, as well as Kyrgyzstan's support, which may divide the countries of the region.

The analysis of foreign policy directions of the countries in the region illustrates that, in the effort to balance Russia, USA and China by weighing the benefits from leaning towards this or that side, they are pursuing an exceptionally pragmatic policy, most often ignoring the intra-regional interests, and even more so, the interests of the CIS as a whole. At the same time, the CA countries realize that it is extremely difficult to confront modern challenges without intra-regional integration.

5.3. Regional integration and cooperation development opportunities

Regional integration is one of the symbols of the global policy of the late 20th to the early 21st century. Along with such phenomena as inter-civilization dialogue and globalization, it has become the foundation underpinning the current construction of international relations.

The effectiveness of developing further integration initiatives will largely depend on the development model accepted by the countries. Particularly, Kazakhstan has a goal to double its GDP by 2010, which is provided that:

- The state becomes the 'locomotive' of economic growth;
- Backbone companies, with government participation, will be created at a regional and, if possible, global level;
- The economic expansion in the CIS region is ensured.

Only the government can accumulate the resources to implement the required industrial development strategy

Economic modernization in the countries of the region will, most likely, follow the similar scenario. It will primarily focus on strengthening the role of the state in the economy. The 2010 Strategic Development Plan of Kazakhstan underlines that Kazakhstan's economy is not large in terms of its internal market capacity. This means that the economy must be export-oriented in order to secure long-term economic growth.

Large-scale long-term investment will be required in order to modernize the economy. Only the government may act as the

‘locomotive’ of such modernization, as the private sector will be unable to provide extensive long-term investments into new sophisticated technology-intensive industrial sectors. Only the government can accumulate the human and financial resources to implement the required industrial development strategy. One of the major economic strategy elements is establishing backbone companies with government participation in all key economic sectors. They should comprise the basis of Kazakhstan’s economy. The form of government participation in such companies may vary, ranging from ownership of the “golden share” to a hundred per cent ownership depending on the economic sector and economic situation.

As for political modernization, there is also a probability of convergence of advancement paths of the countries in the region. In June 2004 President Nazarbayev promulgated the program of transitioning from the regime of supreme presidential government, currently typical to the countries in the region, to a presidential-parliamentary form of government. In particular, it is intended that Parliament will be vested with broader oversight functions. It should not only approve the state budget, but also practically participate in overseeing its execution. There is an intention to develop a new system of government through the mechanism of parliamentary majority. It is proposed that appointment by election of the city, oblast akims and lower level akims⁶¹ will be introduced no later than 2006-2007.

The process of human capacity development in Kazakhstan revealed an insufficiency of funding for a number of important social programs. The main goals of social reforms are:

- To improve the demographic situation by boosting the birth rate and lowering the death rate as well as taking measures to increase life expectancy;
- To increase economic opportunities for the poor through stimulation of economic growth, creating economic conditions which allow people to generate an income that would enable them to attain a higher level of social consumption;
- To ensure universal accessibility to health services, general and professional education;

Economic integration in CA appears to be promising along with the general direction of the development in political, economic and human capital development

⁶¹ Local government’s head

- To provide high quality and a wide choice of social benefits and services to the population;
- Social insurance (health, pension, unemployment, disability, breadwinner loss insurance) has a special place in the social security system. The insurance funds will be created with participation of the state, employers and the population. This approach is designed to enhance investment opportunities for the purposes of “human factor” development as a priority component of social policy.

Economic integration in CA appears to be promising along with the general direction of the development in political, economic and human capital development.

Economic integration would include enhancement of economic cooperation in such areas as the use of affluent natural resources in the region, energy and water use, transport communications; construction of gas and oil pipelines; production cooperation and development of a network of joint enterprises based on the interstate labor division; environment.

The CA states can sustain the fuel and energy sector in terms of its resource supply

Joint efficient water and energy resource use is one of the priorities of economic interaction. It is a priority because the CA states share common basins of the Syrdarya and Amudarya Rivers, a single environmental system and sections of the Gazli-Bukhara-Tashkent-Shymkent-Almaty gas pipeline. The CA states can sustain the fuel and energy sector in terms of its resource supply. Kazakhstan, Turkmenistan and Uzbekistan have great reserves of oil and gas, which are in demand on the global market. Kyrgyzstan and Tajikistan have unique hydropower resources. There are large uranium ore fields, which imply a potential for the development of nuclear energy generation in the CA countries and in the whole CIS. Kazakhstan and Uzbekistan also have significant coal reserves.

Common energy area formation in CA is related to achievement of the objectives defined to establish a complementary fuel and energy sector, which will require a coordinated development policy, embracing power generation, oil and gas extraction, refining and coal production sectors of the industry.

The water resource sector is currently faces the following problems: general shortage of water resources; no single legal framework; the interests of neighboring countries are often ignored; the principles

of water distribution from the trans-boundary rivers are not observed; exchange supplies are not provided.

The main objectives to be addressed through the efforts of the countries in the region in this area are as follows: development of a new efficient water use strategy for the region; definition of the principles of use of the interstate water bodies located within the neighboring states. In the framework of CA, common water and energy policy implementation and the Interstate Water and Energy Consortium and joint construction of Kambartinskaya-1, 2 and Toktogulskaya HPS in Kyrgyzstan and Rogunskaya and Sangtudinskaya HPS in Tajikistan are also very promising.

An important stage of the formation of a CA common energy resource market is the development of its organizational and legal operations mechanism, which implies:

- Development of a mechanism designed to saturate the CA internal market with energy resources, as well as expansion of export opportunities to sell their supplies to third countries;
- Development of coordinated tariff, tax and customs policy principles for the energy sector of the CA countries;
- Establishment of the CA Energy Market Formation and Development Council;
- Creation of financial and industrial groups and joint stock companies to produce and provide transit of energy resources and to manufacture power equipment.

Conclusions

The countries in the region face similar institutional and political challenges, i.e. the need to modernize political systems, reduce unemployment and poverty rates, the threat of extremist and radical ideas and this facilitate the process of integration of the CA countries. The complementary economies and the need to join globalization processes will underpin this aspect.

CA remains a comparatively isolated region in terms of trade and economy. At the same time, it also adversely affects vast bordering areas of CA's neighbors in the east, south and southwest. Development of transport routes is a critical measure,

which, amongst others, contributes to the intensification of cross-border and international trade, improves political climate in the region and increases confidence and stability.

Among the encouraging symptoms is the formation of the SCO, a supra-regional organization, as well as Russia's accession to the Central Asian Cooperation Organization. The major limitation is the inability of the ruling regimes to maintain a fruitful dialogue and to reach compromises and the growth of national ideas focusing on national exclusiveness. Modernization of political systems, growth of the national economies and effectiveness of the supra-regional institutions may become guarantees of success.

Chapter 6. Conclusions and Recommendations

Reforms in 1990th have established the legal, institutional, economic, social and political framework for a new stage of market reform designed to ensure economic growth.

In 1995-1999 specific measures were taken to achieve macroeconomic and production stabilization in the economy of Kazakhstan. This was reflected in a significant reduction in the inflation rate, tenge to dollar exchange rate stabilization, a policy of reducing social payments expenditure, financing of manufacturing sectors development, etc.

The Kazakhstan National Bank's policy allowed inflation and exchange rates to be maintained at an acceptably low level. This played a positive role in establishing and developing a favorable business and investment climate in the country.

Economic growth since 1999 is continuing with average annual temps for about 9 per cent.

In May 2000 Kazakhstan repaid its debt to the International Monetary Fund ahead of the schedule, thereby demonstrating its loan servicing ability to international economic organizations and financial institutes, as well as the foreign creditors.

The volume of tax receipts going to the budget increased, which allowed the repayment of the budgetary debt in salaries, pensions and allowances and ensured their timely payments thereafter. The growing real cash income of the population has increased the effective demand for consumer goods and domestic producers' services.

However during the years of reform human potential development had a decrease which influenced the Kazakhstan HDI rating among 177 world countries in 2002, in comparison with 1990 (24 points lower).

It is necessary to increase all human development indicators, including economic growth, joint education coverage and life expectancy at birth. According to the index of “joint education coverage” Kazakhstan is above 1990 level. Its excess was expected in 2004 for the volume of GDP production, whilst life expectancy at birth is lower than in 1990 for 2.3 years.

The structure of the economy has changed. The difference in prices in agriculture and other sectors, reduction of state financial support to agriculture, reduced agricultural productivity and competitiveness. As a result, the share of agriculture went down from over one third of GDP to 7 per cent. The growth of industry share was attributed to the development of the oil and gas sector. As a result, the dependence of the economy on the world market prices for extractive resources (mainly oil), which are the major exports, increased.

There is a need to restructure the economy and to develop the non-oil sectors. It is necessary to address social problems such as:

- Decrease of a large proportion of the population living below the poverty line and without a permanent job and income;
- Work force quality: training of qualified personnel for all economic sectors is necessary;
- Decrease of population illnesses and mortality, which allow to increase average life expectancy at birth.

About 40 per cent of the population are involved in unorganized forms of business activity, which negatively affects tax collection, entails importation of poor quality cheap goods into the country and capital outflow.

The main problems inhibiting economic growth are the high level of the shadow economy and the low level of collection of tax and non-tax payments for the state budget. This does not allow the state to sustain the required volumes of funding for agriculture, healthcare, education and rural area development.

Continuous increase of world oil prices since 1999 created problem of “excessive holdings of dollars” in Kazakhstan that

led to strengthening of real exchange rate of KZT and thus is already causing symptoms of “Dutch elm disease.” In 2004 this trends are contributing to growth of prices in all spheres of industry and economy in general.

Development of economy and politics of Kazakhstan during 30 years will still be defined by oil and gas sector. According to the prognosis the peak of Kazakhstan’s oil extraction will be in 2030, the main issues are restructuring of economy and development of non-oil sectors. Kazakhstan has a small internal market (only 15 mln. population) and land-locked. Therefore access to new markets, especially to the nearest neighbors Kyrgyzstan, Uzbekistan, Tajikistan, Russia and China, becomes of current interest to Kazakhstan.

At a present stage of development favorable assumptions for effective using of transit opportunities of Kazakhstan have been created.

One of them is connected to developing cooperation between countries of Europe and Asia. It stimulates formation of new, more rational Eurasian transport communications. Efforts of many international organizations are directed to solving problem in this sphere.

Another key assumption of transit development is extension of regional cooperation as part of CIS, ECO, SCO and other international organizations.

Trade relations of CA countries with Russian Federation and China for the most part can be realized only through territory of Kazakhstan. In fact CA countries’ entrances to other world markets are predominantly connected with the same routes as in regional cooperation case.

Regional cooperation is necessary for Kazakhstan for developing non-raw sectors of economy. Cooperation in CA, trade development and maximizing transport and transit potential in Kazakhstan will contribute to the creation of proper conditions for appropriate economic development, increase living standards, poverty alleviation and eradication of unemployment.

Thanks to its geopolitical location, the CA region has historically been a transit link in the system of multi-level relations between Asian and European countries. The ability to build an optimal network of interstate transport routes considering regional specific is acquiring international political and geo-economic significance. This is what will determine the competitiveness

of the CA countries, economic attractiveness, the political prospects of full interaction of the regional states with their neighbors and the international community as a whole.

In our opinion, a number of measures need to be taken in order to make it possible:

1. The countries of the region should become Contracting Parties to those international conventions, to which, at least, one of the states in the region is a signatory. This will establish the framework for harmonization and further unification of national legislation with the international requirements and standards at the global scale and within the region. Special notice should be given to the conventions, facilitating simplification of customs formalities, in particular, the new version of the Kyoto Convention, conciliation of border terms, Istanbul Convention;
2. The countries of the region should take measures to reduce unjustified fees, as well as to unify the tariffs within the region;
3. The countries of the region should agree upon the customs procedures along cargo shipment routes and introduce coordinated customs clearance procedures;
4. Introduce joint customs administration at borders;
5. Revise all agreements, memoranda and protocols in the region in order to identify conflicting commitments;
6. Establish information exchange to share legislative acts and regulations governing foreign trade and transportation activities.

Kazakhstan has strategic interests in establishing the TRACECA, with the leading role of the CA countries and the Caucasus. The main links in this system are the railways and roads, as well as the Black and the Caspian Sea ports. The participation of a group of transit countries in the TRACECA Project will allow the intensification of trade and economic cooperation with the Asian and European participants. Therefore, it will increase the amount of transit shipments passing through their territories, which means increased receipts to the budget and, in turn, increased investments into the transport infrastructure and tourism.

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1. Basic data on Kazakhstan

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Square, ths. m ² *	2,724.9	2,724.9	2,724.9	2,724.9	2,724.9	2,724.9	2,724.9	2,724.9	2,724.9	2,724.9
Population density, men per m ²	5.9	5.8	5.7	5.6	5.5	5.5	5.5	5.5	5.5	5.5
Population, (end-year) mln.	16.0	15.7	15.5	15.2	15.0	14.9	14.9	14.9	14.9	15.0
People under employable age, %	32.5	32.2	31.8	31.4	30.7	30.1	29.4	28.7	27.9	27.2
People above employable age, %	12.2	12.3	12.2	11.9	11.7	11.5	11.1	10.7	10.6	10.5
Rural population, %	44.3	44.3	44.2	44.0	44.0	43.9	43.7	43.5	43.4	43.3
City population, %	55.7	56.7	55.8	56.0	56.0	56.1	56.3	56.4	56.6	56.7
Men, %	48.3	48.3	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2
Women, %	51.7	51.7	51.8	51.8	51.8	51.8	51.8	51.8	51.8	51.8
Kazakh, %	46.0	47.9	49.4	50.6	53.3	55.8	54.9	55.8	56.5	57.2
Russian, %	35.0	33.8	32.9	32.2	30.0	28.3	28.9	28.3	27.7	27.2
Other minorities, %	19.0	18.3	17.7	17.2	16.7	15.9	16.2	15.9	15.8	15.6
Life expectancy, years	64.9	63.5	63.6	64.0	64.5	65.7	65.5	65.8	66.0	65.8
Infant mortality (per 1,000 of born)	27.1	27.0	25.4	24.9	21.6	20.4	18.8	19.1	17.0	15.7
Natural rate of population growth, ths. people	145.3	107.4	87.1	72.2	68.1	70.2	72.3	73.6	77.8	92.7
Change in population migration, mln. people	-0.5	-0.4	-0.3	-0.4	-0.3	-0.1	-0.1	-0.08	-0.06	-0.01
Employable population, mln	8.9	8.8	8.7	8.7	8.6	8.7	8.8	9.0	9.1	9.3
Working population, mln	6.6	6.6	6.5	6.4	6.1	6.1	6.2	6.7	6.7	7.0
Unemployment rate, %	1.1	2.1	4.1	3.8	3.7	3.9	12.8	10.4	9.3	8.8
Number of disabled, who receive social welfare (% of total number of population)	2.1	2.4	2.5	2.5	2.3	2.4	2.6	2.6	2.5	2.6

*) Data of the Committee for Land management of Ministry of Agriculture of the Republic of Kazakhstan.

Source: UNDP National Report on Human Development, 2004

2. Human development indicators

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Life expectancy, years	64.9	63.5	63.6	64.0	64.5	65.7	65.4	65.6	65.8	65.9
Adult literacy rate, %	98.5	98.7	98.9	99.1	99.3	99.5	99.5	99.5	99.5	99.5
Aggregate share of students of all grades of education (aged between 6 and 24 y.o.),%	65.8	65.6	65.9	65.9	66.9	67.9	70.9	71.3	75.4	76.9
Gross Domestic Product in current prices, KZT bln	423.5	1,014.2	1,415.7	1,672.1	1,733.3	2,016.5	2,599.9	3,250.6	3,776.3	4,449.8
Gross Domestic Product, US\$ bln	11.88	16.64	21.04	22.17	22.14	16.87	18.29	22.15	24.64	29.75
Agriculture, % of GDP	14.9	12.3	12.1	11.5	8.6	9.9	8.1	8.7	8.0	7.3
Industry, % of GDP	29.1	23.5	21.2	21.4	24.4	28.2	32.6	30.7	29.5	29.5
Construction	9.6	6.5	4.4	4.2	4.9	4.7	5.2	5.5	6.3	6.2
Services, % of GDP	43.1	53.3	57.3	58.4	56.1	51.6	47.5	48.2	49.1	50.1
Consumption										
Personal, % of GDP	83.7	79.2	75.1	77.4	79.1	79.0	67.3	63.3	63.9	62.1
Public consumption, % of GDP	4.6	5.5	5.1	5.5	5.0	5.0	6.3	8.0	6.1	5.9
Gross savings, % of GDP	28.7	23.3	16.1	15.6	15.8	17.8	18.1	26.9	27.3	26.6
Gross domestic savings, % of GDP	11.7	15.3	19.8	17.1	15.9	16.0	26.4	28.7	30.1	32.0
Tax revenues, % of GDP	14.8	15.8	12.6	12.2	12.4	16.4	20.2	19.6	19.9	21.3
General public services, % of GDP	2.3	0.8	1.0	1.8	1.8	1.4	1.4	1.6	1.2	1.5
Export of goods and services, % of GDP	37.1	39.0	35.3	34.9	30.3	42.5	57.0	46.2	47.2	50.4
Import of goods and services, % of GDP	47.1	43.5	36.0	37.4	34.9	40.1	48.4	47.1	46.3	44.2
GDP physical volume index, % of previous year	87.4	91.8	100.5	101.7	98.1	102.7	109.8	113.5	109.8	109.2
Government expenditure for education, % of GDP	3.2	4.5	4.6	4.4	4.0	3.9	3.3	3.3	3.2	3.3
Government expenditure for healthcare, % of GDP	2.2	3.0	2.5	2.1	1.5	2.2	2.1	1.9	1.9	2.0
Wealth, poverty and social investments										
GDP per capita, at official rate of US\$	735.9	1,052.1	1,350.4	1,445.5	1,468.6	1,130.2	1,229.7	1,490.9	1,658.1	1,995.4

GDP per capita, KZT	26,227.8	64,123.1	90,880.2	109,045.2	114,991.3	135,076.1	174,684.7	218,778.8	254,152.7	298,469.7
Ratio of income of 20% of families with the highest income and 20 % of families with the lowest income	...	...	4.3	6.5	6.1	6.2	6.1	7.2	7.0	7.9
Government expenditure for social welfare and social support, % of GDP	0.8	0.8	0.7	1.6*)	3.1	7.9	6.6	5.7	5.3	5.4
Total expenditure for education, % of GDP	3.2	4.5	4.6	4.4	4.0	3.9	3.3	3.3	3.5	3.3
Total expenditure for healthcare, % of GDP	2.2	3.0	2.5	2.1	1.5	2.2	2.1	1.9	1.9	2.0
Resources inflows										
Ratio of import and export (volume of export, % of import volume)**)	71.8	90.4	99.8	97.5	83.1	116.8	180.7	135.9	149.6	146.2
Export growth in percentage (%) of import growth	...	125.9	110.5	97.7	85.3	140.5	119.0	75.2	96.0	109.8
Dependence of trade (export plus import, % of GDP)	71.6	74.8	63.9	65.7	60.2	63.6	77.5	84.9	66.2	74.7
Share of net direct investments, % of GNP	5.1	5.0	6.2	5.6	5.8	8.7	7.0	12.3	12.5	7.0
Energy consumption										
Total, mln. kilowatt/hour	79,428.1	73,495.9	64,601.0	56,600.7	53,045.7	50,262.9	54,369.4	60,291.7	58,159.1	62,148.3
Per capita, ths. kilowatt/hour	4.9	4.6	4.1	3.6	3.4	3.4	3.4	3.8	3.8	
Water consumption										
Total, km ³	26.1	23.4	21.7	19.4	16.8	14.9	14.7	14.6	14.9	15.2
Per capita, m3	1,631	1,464	1,382	1,254	1,105	991	985	986	1,000	1,023

*)1997 – social protection together with social insurance

**) – volume of export and import are given adjusted for calculations on informal trade (in FOB prices)

Source: UNDP National Report on Human Development, 2004

3. Human development index

	Human development index	Per capita income (Gross Domestic Product), US\$, Purchasing-power parity	Life expectancy, years	Aggregate share of students of all educational grades (aged between 6 and 24 y.o.), %
The Republic of Kazakhstan				
1994	0.738	4,711	64.9	65.8
1995	0.726	4,508	63.5	65.6
1996	0.732	4,682	63.6	65.9
1997	0.735	4,628	64.0	65.9
1998	0.736	4,379	64.5	66.9
1999	0.742	4,293	65.7	68.9
2000	0.743	4,488	65.5	70.7
2001	0.754	5,220	65.8	72.5
2002	0.767	5,870	66.0	75.4
2003	0.772	6,527	65.8	76.9

Source: UNDP National Report on Human Development, 2004

4. Number of population at the beginning of year, ths.

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
The Republic of Kazakhstan	16,334.9	15,956.7	15,675.8	15,480.6	15,188.2	14,955.1	14,901.6	14,865.6	14,851.1	14,866.9	14,951.2
Akmola oblast	1,052.9	1,009.6	970.7	937.8	879.3	829.2	799.2	776.4	755.0	748.2	748.9
Aktobe oblast	734.8	720.7	711.7	705.3	694.6	682.5	677.7	670.2	668.2	668.4	671.8
Almaty oblast	1,643.9	1,616.1	1,596.9	1,584.6	1,569.1	1,556.5	1,557.1	1,554.3	1,554.6	1,560.3	1,571.2
Almaty city	1,125.8	1,114.7	1,111.7	1,117.7	1,120.1	1,129.0	1,130.4	1,128.8	1,132.4	1,149.6	1,175.2
Atyrau oblast	436.1	435.7	435.2	436.4	437.9	439.4	441.7	443.6	447.6	451.9	457.2
East Kazakhstan oblast	1,753.2	1,685	1,638.3	1,600.2	1,562.3	1,532.9	1,516.8	1,499.1	1,482.5	1,465.9	1,455.4
Zhambyl oblast	1,031.6	1,013.3	1,002	998.5	989.7	988.9	986.1	981.9	979.2	980.1	985.6
West Kazakhstan oblast	660.8	652.7	647	640.3	629.3	617.4	609.2	601.6	600.3	602.1	603.8
Karaganda oblast	1,646.1	1,584.8	1,537.2	1,501	1,461.1	1,411.4	1,390.5	1,364.8	1,344.2	1,333.7	1,330.9
Kyzylorda oblast	599.3	590.9	587.4	589.2	592.2	595.5	598.5	599.7	601.0	603.8	607.5
Kostanai oblast	1,239.3	1,201.6	1,159.5	1,133	1,076.5	1,020.5	988.8	959.3	935.7	919.6	913.4
Mangistau oblast	325.2	305.1	306.3	309.9	314.7	314.0	315.2	319.2	328.3	338.6	349.7
Pavlodar oblast	941.9	912	885.3	865.8	837.8	808.4	790.8	772.5	758.2	748.7	745.3
North Kazakhstan oblast	916.7	880.6	843.3	804.3	756.7	727.0	713.6	702.6	691.3	682.1	674.5
South Kazakhstan oblast	1,932.7	1,940.7	1,953.6	1,969.4	1,966.4	1,975.6	2,005.0	2,051.4	2,079.5	2,111.9	2,150.3
Astana city	294.6	293.2	289.7	287.2	300.5	326.9	381.0	440.2	493.1	502.0	510.5

Source: UNDP National Report on Human Development, 2004

5. Population poverty index

	1998	1999	2000	2001	2002	2003
Akmola oblast and Astana	23.1	24.6	22.4	20.7	19.7	19.6
Akmola oblast	24.6	27.5	25.0	24.0	22.5	23.4
Aktobe oblast	36.5	22.6	23.1	26.0	23.8	22.5
Almaty oblast	40.0	30.4	31.7	27.8	25.9	21.4
Atyrau oblast	39.9	34.7	34.4	29.6	27.0	25.4
East Kazakhstan oblast	26.1	21.1	21.9	22.1	21.9	21.1
Zhambyl oblast	33.2	31.2	33.1	32.8	26.0	23.8
West Kazakhstan oblast	24.5	23.8	20.6	24.1	24.5	21.7
Karaganda oblast	29.4	22.6	22.7	23.6	22.7	22.9
Kostanai oblast	25.9	22.3	22.9	23.0	21.7	22.0
Kyzylorda oblast	31.7	36.5	34.4	28.0	24.4	21.6
Mangistau oblast	23.0	27.9	39.4	32.4	29.1	22.6
Pavlodar oblast	26.6	32.8	21.1	21.5	21.4	20.3
North Kazakhstan oblast	30.9	23.9	21.1	20.8	21.4	21.4
South Kazakhstan oblast	55.7	36.4	34.8	27.3	21.7	21.0
Astana city	21.5	18.9	23.5	21.8	16.2	14.4
Almaty city	19.1	18.4	17.6	16.8	16.26	16.9
Kazakhstan	31.2	26.2	25.1	23.7	22.0	20.9

Source: UNDP National Report on Human Development, 2004

6. Supply of the population with drinking water from decentralized water supply sources (wells, springs, artesian wells without distributing network), in per cent

	1998	1999	2000	2001	2002	2003
The Republic of Kazakhstan	19	19	20.9	21.3	20.6	20.2
Akmola oblast	13.7	25.2	18.8	18.7	19.6	22.4
Aktobe oblast	22	28.1	26.1	23.9	23.4	28.2
Almaty oblast	20.9	18.8	19.6	19.3	19.1	18.0
Atyrau oblast	4.5	5	5.5	4.9	4.7	4.2
East Kazakhstan oblast	28.4	28.6	30	28.8	29.1	27.8
Zhambyl oblast	29.2	32.4	39.7	37	35.6	34.3
West Kazakhstan oblast	31.2	31.4	30.8	33.8	33.7	32.3
Karaganda oblast	11	4.9	11	10.8	10.5	12.2
Kostanai oblast	26	26	32.6	34.4	29.0	29.0
Kyzylorda oblast	16.9	17.6	19.3	19.8	18.1	10.9
Mangistau oblast	0.4	0.9	1.1	1.1	1.0	1.0
Pavlodar oblast	24.1	15.0	18.3	20	21.2	25.4
North Kazakhstan oblast	27	36.2	40	38.9	37.8	35.8
South Kazakhstan oblast	19	19.2	22.8	29.6	28.9	23.6
Astana city	...	...	...	-	-	-
Almaty city	3.5	3.5	...	-	-	-
Central Sanitary-Epidemiological Service on transport	1.9	2.5	2.2	2.4	3.6	3.4

Source: the Republican Sanitary and Epidemiological Service of the Ministry of Health Care of the Republic of Kazakhstan

7. Sanitary condition of water sources in 2003

	Specific weight of piped water which does not correspond with the microbiological indicator standards	Specific weight of piped water which does not correspond with the chemical indicator standards	Specific weight of water from decentralized sources which does not correspond with the microbiological indicator standards	Specific weight of water from decentralized sources which does not correspond with the chemical indicator standards
The Republic of Kazakhstan	2.8	4.7	6.2	10.2
Akmola oblast	4.8	14.8	7.7	14.8
Aktobe oblast	2.7	3.4	4.9	16.8
Almaty oblast	2.5	2.2	3.3	3.2
Almaty	1.4	0.0	-	-
Atyrau oblast	2.2	2.2	9.2	5.4
East Kazakhstan oblast	0.9	1.3	2.1	2.5
Zhambyl oblast	2.2	0.8	7.8	6.3
West Kazakhstan oblast	2.7	9.3	8.5	3.3
Karaganda oblast	1.3	2.5	2.3	19.9
Kyzylorda oblast	5.1	15.4	7.8	38.1
Kostanai oblast	3.0	4.8	10.2	8.1
Mangistau oblast	0.2	5.5	0.0	6.6
Pavlodar oblast	1.9	1.6	7.2	10.6
North Kazakhstan oblast	1.8	6.8	3.6	14.7
South Kazakhstan oblast	2.7	3.3	7.5	10.0
Astana	1.0	1.7	-	-

Source: the Republican Sanitary and Epidemiological Service of the Ministry of Health Care of the Republic of Kazakhstan

8. Life expectancy in 2003, y.o.

Kazakhstan		City		Rural area	
Men	Women	Men	Women	Men	Women
60.6	71.4	59.2	71.3	62.7	71.8

Source: The Agency of Statistics of the Republic of Kazakhstan

9. Medicine and healthcare

	Mortality from blood circulation diseases (% of total number of diseases)	Mortality from malignant tumor (% of total number of diseases)	Number of people per one physician
The Republic of Kazakhstan			
1994	48.1	14.2	261
1995	47.6	13.1	261
1996	47.6	12.8	267
1997	47.6	12.8	279
1998	48.7	13.0	281
1999	49.8	13.1	295
2000	49.8	12.9	303
2001	49.8	12.9	289
2002	50.6	12.7	277
2003	51.7	12.1	274

Source: UNDP National Report on Human Development, 2004

10. Human development index adjusted for gender factor

Both sexes	1998	1999	2000	2001	2002	2003
Life expectancy index	0.658	0.675	0.675	0.680	0.683	0.680
Education accessibility index	0.921	0.921	0.921	0.9241	0.934	0.937
Income index	0.631	0.627	0.635	0.660	0.680	0.697
HDI	0.737	0.7412	0.743	0.755	0.766	0.772
Female						
Life expectancy index	0.757	0.767	0.768	0.772	0.775	0.775
Education accessibility index	0.925	0.9252	0.925	0.929	0.940	0.945
Income index	0.583	0.576	0.549	0.583	0.607	0.625
HDI	0.755	0.756	0.748	0.761	0.774	0.782
Male						
Life expectancy index	0.567	0.588	0.587	0.592	0.595	0.592
Education accessibility index	0.915	0.915	0.915	0.919	0.927	0.929
Income index	0.670	0.669	0.695	0.716	0.734	0.751
HDI	0.717	0.724	0.732	0.742	0.752	0.757
Both sexes adjusted to gender						
Life expectancy index	0.588	0.611	0.609	0.614	0.617	0.612
Education accessibility index	0.905	0.905	0.905	0.908	0.915	0.915
Income index	0.475	0.461	0.380	0.415	0.440	0.451
HDI	0.656	0.659	0.631	0.646	0.657	0.660

Source: UNDP National Report on Human Development, 2004

11. Condition of Women

	Life expectancy, y.o.		Maternal mortality rate (per 100,000 of born)
	women	men	
The Republic of Kazakhstan			
1994	70.4	60.0	48.4
1995	69.5	58.4	57.6
1996	70.0	58.5	52.9
1997	70.2	59.0	59.0
1998	70.4	59.0	54.8
1999	70.9	60.6	65.3
2000	71.1	60.2	60.9
2001	71.3	60.5	48.6

Source: UNDP National Report on Human Development, 2004

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